RIO TINTO PLC
Form 20-F
June 27, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F

(Mark One)

Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

or

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the financial year ended: 31 December 2006

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from:_____ to_____

or

Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of event requiring this shell company report _____

Commission file number: 1-10533

Rio Tinto plc

(Exact name of Registrant as specified in its charter)

England and Wales
(Jurisdiction of incorporation or organisation)

6 St James's Square
London, SW1Y 4LD, United Kingdom
(Address of principal executive offices)

Commission file number: 0-20122

Rio Tinto Limited

ABN 96 004 458 404
(Exact name of Registrant as specified in its charter)

Victoria, Australia
(Jurisdiction of incorporation or organisation)

Level 33, 120 Collins Street
Melbourne, Victoria 3000, Australia
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered	Name of each exchange on which registered	Title of each class
American Depositary Shares*	New York Stock Exchange		None
Ordinary Shares of 10p each**	New York Stock Exchange		

* Evidenced by American Depository Receipts. Each American Depository Share Represents four Rio Tinto plc Ordinary Shares of 10p each.

** Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class	Title of each class
None	Shares

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None None

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Title of each class	Number	Number	Title of each class
Ordinary Shares of 10p each	1,071,488,203	456,815,943	Shares
DLC Dividend Share of 10p	1	1	DLC Dividend Share
Special Voting Share of 10p	1	1	Special Voting Share

Indicate by check mark if the registrants are well-seasoned issuers, as defined in rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Yes No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, or non-accelerated filers. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrants have elected to follow:

Item 17 Item 18

EXPLANATORY NOTE

The Rio Tinto Group is a leading international mining group, combining Rio Tinto plc and Rio Tinto Limited in a dual listed companies (DLC) merger which was designed to place the shareholders of both Companies in substantially the same position as if they held shares in a single enterprise owning all of the assets of both Companies.

In previous years, the Form 20-F filed with the United States Securities and Exchange Commission (SEC), contained separate consolidated financial statements for the Rio Tinto plc and Rio Tinto Limited parts of the Group. These were presented on the basis of the legal ownership of the various operations within each part of the Group. The separate financial statements for Rio Tinto Limited included, on a consolidated basis, the Group undertakings under its legal ownership, and those for Rio Tinto plc included, on a consolidated basis, the Group undertakings under its legal ownership. This presentation of financial information filed with the SEC was on the assumption that the formation of the Group through the dual listed companies (DLC) arrangements was not a business combination. The financial statements filed with the SEC also included supplemental financial information that combined the consolidated financial statements of the Rio Tinto plc and Rio Tinto Limited parts of the Group to present the Rio Tinto Group, with no adjustment for fair values.

This combined financial information for the Rio Tinto Group was consistent with the financial statements that were used for the purposes of satisfying the Group's reporting obligations in the United Kingdom and Australia. The combined financial statements for the Rio Tinto Group viewed the formation of the DLC as a business combination and accounted for the transaction as a merger in accordance with UK Financial Reporting Standard No. 6 *Acquisitions and Mergers* (FRS 6). Applying FRS 6, Rio Tinto plc and Rio Tinto Limited were combined and presented as one economic entity with no adjustment for fair values.

As permitted under the transitional arrangements set out in IFRS 1 First time adoption of International Financial Reporting Standards, which sets out the rules for first time adoption of IFRS, the Group did not apply the concepts of IFRS 3 Business Combinations for business combinations prior to the first time application of EU IFRS. Accordingly, the Group is following the same method of accounting for the DLC in its financial statements under EU IFRS as was historically followed under UK GAAP: the Group is presented as one economic entity at historical cost.

Subsequent to the formation of the Group, the accounting model used in filings with the SEC for the presentation of financial statements of companies that form DLCs has changed. The formation of a new DLC is now viewed as a business combination. The Group now believes that it would be preferable to treat the formation of the DLC as a business combination, with the result that the accounting and reporting of financial statements prepared in accordance with IFRS to the SEC will be consistent with the accounting and reporting in the United Kingdom and Australia.

Accordingly, the Group has revised the presentation of its financial statements included in Form 20-F to account for the formation of the DLC as a business combination. As a consequence, separate financial statements for Rio Tinto plc and Rio Tinto Limited will no longer be presented. Instead, the financial statements will deal with the Rio Tinto Group as one combined economic entity. This new presentation is applied retrospectively for all periods presented. The IFRS information presented on this new basis in the 20-F is the same as the combined supplemental information for the Rio Tinto Group that was previously disclosed.

Under US GAAP, the Group now accounts for the formation of the DLC using the purchase method. As a consequence of this treatment, Rio Tinto shareholders' funds under US GAAP at 31 December 2006 are $1,519 million above those under EU IFRS; and US GAAP net earnings for 2006 are $62 million below those under EU IFRS. Further information on the impact of purchase accounting under US GAAP is shown in note 48 to the 2006 financial statements on pages A-71 to A-72.

Rio Tinto plc and Rio Tinto Limited established separate ADR programmes prior to their DLC merger and had maintained both but following a review it was concluded that the Rio Tinto Limited ADR programme should be terminated with effect from 10 April 2006 and a notice of termination was mailed to ADR holders. The Rio Tinto plc ADR programme was not affected by this termination.

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RIO TINTO

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The selected consolidated financial data on pages 3 to 4 has been derived from the 2006 financial statements of the Rio Tinto Group under Item 18. Financial statements herein, have been restated where appropriate to accord with the current accounting policies and presentations. The selected consolidated financial data should be read in conjunction with, and qualified in their entirety by reference to, the 2006 financial statements and notes thereto.

The 2006 financial statements were prepared in accordance with IFRS as adopted by the European Union, which differs in certain respects from US GAAP. Details of the principal differences between EU IFRS and US GAAP are set out in note 48 to the 2006 financial statements.

RIO TINTO GROUP

Income Statement Data

For the years ending 31 December	2004	2005	**2006**
Amounts in accordance with EU IFRS (a)	US$m	US$m	**US$m**
Consolidated revenue	12,954	19,033	**22,465**
Group operating profit (b)	3,327	6,922	**8,974**
Profit for the year	3,244	5,498	**7,867**
Group operating profit per share (US cents)	241.3	507.5	**673.0**
Earnings per share (US cents)	239.1	382.3	**557.8**
Diluted earnings per share (US cents)	238.7	381.1	**555.6**

Dividends per share

	2002	2003	2004	2005	**2006**
US cents (c)					
– ordinary dividends	68.5	60.5	66.0	83.5	**81.5**
– special dividend	—	—	—	—	**110.0**

UK pence (c)					
– ordinary dividends	46.52	37.05	36.22	45.69	**44.77**
– special dividend	—	—	—	—	**61.89**
Australian cents (c)					
– ordinary dividends	129.91	96.89	90.21	108.85	**107.34**
– special dividend	—	—	—	—	**145.42**
Weighted average number of shares (millions)	1,377	1,378	1,379	1,364	**1,333**

Amounts in accordance with US GAAP

	2002 US$m	2003 US$m	2004 US$m	2005 US$m	**2006 US$m**
Consolidated revenue (g)	8,719	9,545	12,081	19,343	**22,781**
Group operating profit (b) (g)	657	936	1,312	6,229	**7,499**
Net earnings (d)	514	1,750	2,738	4,874	**6,649**
Earnings per share (US cents)	37.3	127.0	198.5	357.3	**498.6**
Diluted earnings per share (US cents)	37.3	126.9	198.2	356.2	**496.6**

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Balance Sheet Data at 31 December Amounts in accordance with EU IFRS (a)	2004 US$m	2005 US$m	**2006** US$m
Total assets	26,308	29,803	**34,494**
Share capital / premium	3,127	3,079	**3,190**
Total equity / Net assets	12,591	15,739	**19,385**
Equity attributable to Rio Tinto shareholders	11,877	14,948	**18,232**

Amounts in accordance with US GAAP	2002 US$m	2003 US$m	2004 US$m	2005 US$m	**2006** US$m
Total assets	24,631	29,378	32,125	34,774	**37,295**
Share capital / premium	2,580	2,869	3,127	3,079	**3,190**
Rio Tinto shareholders' funds (d)	10,968	13,727	16,122	18,677	**20,791**

Notes

(a) In accordance with the General Instructions for Form 20-F, Section G, audited information under EUIFRS is presented for 2004, 2005 and 2006 only as International Financial Reporting Standards were adopted from 1 January 2004.

(b) Operating profit under EU IFRS includes the effects of charges and reversals resulting from impairments and profit and loss on disposals of interests in businesses, including investments. Operating profit under US GAAP also includes the effects of charges but not reversals resulting from impairments but excludes profit and loss on disposals of interests in businesses, including investments. Both the EU IFRS and US GAAP operating profit amounts shown above exclude equity accounted operations.

(c) Dividends presented above are those paid in the year.

(d) Amounts shown are attributable to equity shareholders of Rio Tinto.

(e) The results for all years relate wholly to continuing operations.

(f) There are no differences between International Financial Reporting Standards (IFRS) and IFRS adopted by the European Union (EU IFRS) that would impact the financial statements of the Rio Tinto Group for the years ended 31 December 2004, 2005 and 2006.

(g) Certain jointly controlled assets, which previously were equity accounted under UK and US GAAP, are proportionally consolidated under EUIFRS. The above US GAAP data for 2005 and 2006 also include these units on the basis of proportional consolidation. Amounts presented for consolidated revenue and operating profit in the years 2002 through 2004 have not been restated and continue to incorporate these units on the equity accounting basis. If these units had been subject to equity accounting, Group consolidated revenue and operating profit, respectively, would have been $2.0 billion and $1.0 billion lower (2005: $2.2 billion and $1.1 billion lower). However, net earnings would have been unchanged

(h) As a result of adopting IAS 32, IAS 39 and IFRS 5 on 1 January 2005, the Group changed its method of accounting for financial instruments and non-current assets held for sale. In line with the relevant transitional provisions, the prior period comparatives have not been re-stated. See Note 1 to the 2006 financial statements for further discussion.

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RISK FACTORS

The following describes some of the risks that could affect Rio Tinto. There may be additional risks unknown to Rio Tinto and other risks, currently believed to be immaterial, could turn out to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results. They should also be considered in connection with any forward looking statements in this document and the cautionary statement on the following page.

Economic conditions

Commodity prices, and demand for the Group's products, are influenced strongly by world economic growth, particularly that in the US and Asia. The Group's normal policy is to sell its products at prevailing market prices. Commodity prices can fluctuate widely and could have a material and adverse impact on the Group's asset values, revenues, earnings and cash flows.

The strong underlying economic conditions and commodity prices have led to a rapid growth in demand for technical skills in mining, metallurgy and geological sciences, and for materials and supplies related to the mining industry, causing skills and materials shortages. The retention of skilled employees, the recruitment of new staff and the purchasing of materials and supplies may lead to increased costs, interruptions to existing operations and to delays in new projects.

Further discussion can be found on page 12, Business environment, markets and regulations, and on page 79, commodity prices.

Exchange rates

The Group's asset values, earnings and cash flows are influenced by a wide variety of currencies due to the geographic diversity of the Group's sales and areas of operation. The majority of the Group's sales are denominated in US dollars. The Australian and US dollars are the most important currencies influencing costs. The relative value of currencies can fluctuate widely and could have a material and adverse impact on the Group's asset values, costs, earnings and cash flows. Further discussion can be found under, Exchange rates, reporting currencies and currency exposure on page 77.

Acquisitions

The Group has grown partly through the acquisition of other businesses. Business combinations commonly entail a number of risks and Rio Tinto cannot be sure that management will be able effectively to integrate businesses acquired or generate the cost savings and synergies anticipated. Failure to do so could have a material and adverse impact on the Group's costs, earnings and cash flows. Furthermore, the Group may, under the terms of the acquisition, be liable for the past acts or omissions of the acquired businesses in circumstances where the price paid does not adequately reflect the eventual cost of these liabilities.

Exploration and new projects

The Group seeks to identify new mining properties through an active exploration programme. There is no guarantee, however, that such expenditure will be recouped or that existing mineral reserves will be replaced. Failure to do so could have a material and adverse impact on the Group's financial results and prospects. In particular, Rio Tinto has commenced or recommenced exploration for new projects in a number of new countries which may increase risks around land and resource tenure.

The Group develops new mining properties and expands its existing operations as a means of generating shareholder value. Increasing regulatory, environmental and social approvals are, however, required which can result in significant increases in construction costs and/or significant delays in construction. These increases could materially and adversely affect the economics of a project and, consequently, the Group's asset values, costs, earnings and cash flows.

Ore reserve estimates

There are numerous uncertainties inherent in estimating ore reserves; assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in

reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping calculations and provisions for close down, restoration and environmental clean up costs. Further discussion can be found under Ore reserve estimates on page 82.

Political and community

The Group has operations in jurisdictions having varying degrees of political and commercial instability. Political instability can result in civil unrest, expropriation, nationalisation, renegotiation or nullification of existing agreements, mining leases and permits, changes in laws, taxation policies or currency restrictions. Commercial instability caused by bribery and corruption in their various guises can lead to similar consequences. Any of these can have a material adverse effect on the profitability or, in extreme cases, the viability of an operation.

Some of the Group□s current and potential operations are located in or near communities that may now, or in the future, regard such an operation as having a detrimental effect on their economic and social circumstances. Should this

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occur, it may have a material adverse impact on the profitability or, in extreme cases, the viability of an operation. In addition, such an event may adversely affect the Group's ability to enter into new operations in the country.

Technology
The Group has invested in and implemented information system and operational initiatives. Several technical aspects of these initiatives are still unproven and the eventual operational outcome or viability cannot be assessed with certainty. Accordingly, the costs and benefits from these initiatives and the consequent effects on the Group's future earnings and financial results may vary widely from present expectations.

Land and resource tenure
The Group operates in several countries where title to land and rights in respect of land and resources (including indigenous title) may be unclear and may lead to disputes over resource development. Such disputes could disrupt relevant mining projects and/or impede the Group's ability to develop new mining properties.

Health, safety and environment
Rio Tinto operates in an industry that is subject to numerous health, safety and environmental laws and regulations as well as community expectations. Evolving regulatory standards and expectations can result in increased litigation and/or increased costs all of which can have a material and adverse effect on earnings and cash flows.

Mining operations
Mining operations are vulnerable to a number of circumstances beyond the Group's control, including natural disasters, unexpected geological variations and industrial actions. These can affect costs at particular mines for varying periods. Mining, smelting and refining processes also rely on key inputs, for example fuel and electricity. Appropriate insurance can provide protection from some, but not all, of the costs that may arise from unforeseen events. Disruption to the supply of key inputs, or changes in their pricing, may have a material and adverse impact on the Group's asset values, costs, earnings and cash flows.

Rehabilitation
Costs associated with rehabilitating land disturbed during the mining process and addressing environmental, health and community issues are estimated and provided for based on the most current information available. Estimates may, however, be insufficient and/or further issues may be identified. Any underestimated or unidentified rehabilitation costs will reduce earnings and could materially and adversely affect the Group's asset values, earnings and cash flows.

Non managed projects and operations
Where projects and operations are controlled and managed by the Group's partners, the Group may provide expertise and advice, but it cannot guarantee compliance with its standards and objectives. Improper management or ineffective policies, procedures or controls could not only adversely affect the value of the related non managed projects and operations but could also, by association, harm the Group's other operations and future access to new assets.

CAUTIONARY STATEMENT ABOUT FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the financial condition, results of operations and business of the Rio Tinto Group. The words "intend", "aim", "project", "anticipate", "estimate", "plan", "believes" "expects", "may", "should", "will", or similar expressions, commonly identify such forward looking statements. Examples of forward looking statements in this annual report on Form 20-F include, without limitation, those regarding estimated ore reserves, anticipated production or construction dates, costs, outputs and productive lives of assets or similar factors. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors set forth in this document that are beyond the Group's control. For example, future ore reserves will be based in part on market prices that may vary significantly from current levels. These may materially affect the timing and feasibility of particular developments. Other factors that could affect the Group's

results include the ability to produce and transport products profitably, demand for our products, the effect of foreign currency exchange rates on market prices and operating costs, and activities by governmental authorities, such as changes in taxation or regulation, and political uncertainty.

In light of these risks, uncertainties and assumptions, actual results could be materially different from any future results expressed or implied by these forward looking statements which speak only as at the date of this report. Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information or future events. The Group cannot guarantee that its forward looking statements will not differ materially from actual results.

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Item 4. Information on the Company

INTRODUCTION

Rio Tinto is a leading international mining group whose business is finding, mining and processing the earth's mineral resources. The Group's interests are diverse both in geography and product. Our activities span the world but we are strongly represented in Australia and North America and we have significant businesses in South America, Asia, Europe and southern Africa. Those businesses include open pit and underground mines, mills, refineries and smelters as well as a number of research and service facilities.

The Group combines Rio Tinto plc, registered in England and Wales, listed on the London Stock Exchange and headquartered in the UK; and, Rio Tinto Limited, incorporated in Victoria, Australia, listed on the Australian Securities Exchange and with executive offices in Melbourne. The Group consists of wholly and partly owned subsidiaries, jointly controlled assets, jointly controlled entities and associated companies, the principal ones being listed in notes 35 to 38 to the 2006 financial statements.

On 31 December 2006, Rio Tinto plc had a market capitalisation of £27.8 billion (US$54 .5 billion) and Rio Tinto Limited had a market capitalisation in publicly held shares of A$21.2 billion (US$16.8 billion). The combined Group's market capitalisation in publicly held shares at the end of 2006 was US$71.3 billion.

Objective, strategy and management structure

Our fundamental objective is to maximise the overall long term value and return to our shareholders. We do this by operating responsibly and sustainably in areas of proven expertise such as exploration, project evaluation and mining, where the Group has a competitive advantage.

Our strategy is to maximise net present value by investing in large, long life, cost competitive mines. Investments are driven by the quality of each opportunity, not by the choice of commodity.

Rio Tinto's management structure is designed to facilitate a clear focus on the Group's objective. This structure, reflected in this report, is based on the following principal product and global support groups:

- Iron Ore
- Energy
- Industrial Minerals
- Aluminium
- Copper
- Diamonds
- Exploration
- Technology and Innovation (formerly Operational and Technical Excellence).

The chief executive of each product group reports to the chief executive of Rio Tinto.

Nomenclature and financial data

Rio Tinto Limited and Rio Tinto plc operate as one business organisation, referred to in this report as Rio Tinto, the Rio Tinto Group or, more simply, the Group. These collective expressions are used for convenience only, since both Companies, and the individual companies in which they directly or indirectly own investments, are separate and distinct legal entities.

'Limited', 'plc', 'Pty', 'Inc', 'Limitada', 'SA' and similar suffixes have generally been omitted from Group company names, except to distinguish between Rio Tinto plc and Rio Tinto Limited.

Financial data in United States dollars (US$) is derived from, and should be read in conjunction with, the 2006 financial statements which are in US$. In general, financial data in pounds sterling (£) and Australian dollars (A$) have been translated from the consolidated financial statements and have been provided solely for convenience; exceptions arise where data, such as directors' remuneration, can be extracted directly from source records.

Rio Tinto Group sales revenue, profit before tax and net earnings and operating assets for 2005 and 2006 attributable to the product groups and geographical areas are shown in notes 30 and 31 to the 2006 financial statements. In the *Operating and financial review* (OFR), operating assets and sales revenue for 2005 and 2006 are consistent with the financial information by business unit in note 47 to the 2006 financial statements.

The tables on pages 19 to 22 show production for 2004, 2005 and 2006 and include estimates of proven and probable ore reserves. Words and phrases, often technical, have been used which have particular meanings; definitions of these terms are in the Glossary on pages 153 to 155. The weights and measures used are mainly metric units; conversions into other units are shown on page 155.

History

Rio Tinto's predecessor companies were formed in 1873 and 1905. The Rio Tinto Company was formed by investors in 1873 to mine ancient copper workings at Rio Tinto, near Seville in southern Spain. The Consolidated Zinc Corporation was incorporated in 1905 to treat zinc bearing mine waste at Broken Hill, New South Wales, Australia.

The RTZ Corporation (formerly The Rio Tinto-Zinc Corporation) was formed in 1962 by the merger of The Rio Tinto Company and The Consolidated Zinc Corporation.

CRA Limited (formerly Conzinc Riotinto of Australia Limited) was formed at the same time by a merger of the

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Australian interests of The Consolidated Zinc Corporation and The Rio Tinto Company.

Between 1962 and 1995, both RTZ and CRA discovered important mineral deposits, developed major mining projects and also grew through acquisition.

RTZ and CRA were unified in 1995 through a dual listed companies structure. This means the Group, with its common board of directors, is designed to place the shareholders of both Companies in substantially the same position as if they held shares in a single enterprise owning all of the assets of both Companies.

In 1997, The RTZ Corporation became Rio Tinto plc and CRA Limited became Rio Tinto Limited, together known as the Rio Tinto Group. Since the 1995 merger, the Group has continued to invest in developments and acquisitions in keeping with its strategy.

Contact details

The registered office of Rio Tinto plc is at 6 St James□s Square, London, SW1Y 4LD (telephone: +44 20 7930 2399) and the registered office of Rio Tinto Limited is at Level 33, 120 Collins Street, Melbourne, Victoria 3000 (telephone: +61 3 9283 3333). Rio Tinto□s agent in the US is Shannon Crompton, secretary of Rio Tinto□s US holding companies, who may be contacted at Rio Tinto Services Inc., 80 State Street, Albany, New York, 12207-2543.

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CAPITAL PROJECTS

Rio Tinto is investing heavily in future growth opportunities from the Group's broad portfolio of assets. Projects have been financed out of internally generated funds. Major projects completed and ongoing are summarised below.

Project	Estimated cost (100% basis) US$m	Status/Milestones
Completed in 2004		
Iron ore – Development of the Eastern Range (Rio Tinto: 54%) with a capacity of ten million tonnes per year.	67	First shipments dispatched in the first half of the year.
Aluminium – Construction of the first stage of new 1.4 million tonnes per year alumina refinery at Gladstone.	750	Completed three months early. Initial shipments started in early 2005.
Copper – Northparkes (Rio Tinto: 80%) construction of second block cave.	100	Production commenced in 2004.
Copper – Palabora (Rio Tinto: 49%) underground block caving operation	465	Construction completed but production was initially impacted by fragmentation of the cave.
Completed in 2005		
Iron ore – HIsmelt® plant (Rio Tinto: 60%) at Kwinana in Western Australia.	200	The full production rate of 800,000 tonnes per year is expected to be reached over three years.
Iron ore – Expansion of Yandicoogina mine.	200	Expansion completed in the third quarter.
Iron ore – Expansion of West Angeles mine (Rio Tinto: 53%).	105	Project completed in the third quarter.
Titanium dioxide – Expansion of upgraded slag plant.	76	Commissioning started in first quarter.
Copper – Development of the Escondida Norte satellite deposit (Rio Tinto: 30%) to provide mill feed to keep Escondida's capacity above 1.2 million tonnes of copper per year to the end of 2008.	400	First production occurred in 2005.
Iron ore – Expansion of port capacity to 116 million tonnes per annum.	685	Focus on production ramp up following completion of construction.
Completed in 2006		
Iron ore – Expansion of Hamersley Iron's (Rio Tinto: 100%) Tom Price and Marandoo mines and construction of new mine capacity at Nammuldi.	290	The Marandoo and Nammuldi components are complete and Tom Price is scheduled for completion by the first quarter of 2007.

Iron ore – Expansion by Robe River (Rio Tinto: 53%) of rail capacity including completion of dual tracking of 100 km mainline section.	200	The project was completed on budget and ahead of schedule.
Copper – Escondida sulphide leach (Rio Tinto: 30%). The project will produce 180,000 tonnes per annum of copper cathode for more than 25 years.	925	The first cathode production from the sulphide leach plant occurred in June 2006.
Titanium dioxide – Expansion of annual capacity at UGS plant from 325,000 tonnes to 375,000 tonnes.	79	The project was completed in October three months ahead of schedule and under budget.
Boric acid – Phase 2 of Rio Tinto Minerals boric acid Expansion	50	The project was completed on schedule and under budget.
Coking coal – Hail Creek (Rio Tinto: 82%) Expansion of annual capacity from 6 million tonnes to nameplate 8 million tonnes per annum, with washing plant increased to 12 million tonnes per annum.	223	The new dragline was commissioned early in the third quarter of 2006.
Ongoing		
Copper – KUC (Rio Tinto: 100%) East 1 pushback. The project extends the life of the open pit to 2017 while retaining options for further underground or open pit mining thereafter.	170	The project was approved in February 2005 and work on the pushback continues. The pebble crushing unit was commissioned in the third quarter of 2006.
Diamonds – Construction at Diavik (Rio Tinto: 60%) of the A418 dyke, and funding for further study of the viability of underground mining, including the construction of an exploratory decline.	265	The project was approved in 2004. The A418 dyke was closed off in late 2005 with dewatering completed in 2006. The dyke was completed during March 2007 with production from the A418 pipe expected to commence during April 2008. Construction of the exploratory decline is expected to be completed during June 2007.

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Iron ore – Brownfields mine expansion of Hamersley Irons (Rio Tinto: 100%) Yandicoogina mine from 36 million tonnes per annum to 52 million tonnes per annum.	530	The project was approved in October 2005 and completion is expected by the end of the third quarter of 2007.
Iron ore – Expansion of Hamersley Irons (Rio Tinto: 100%) Dampier port (Phase B) from 116 million tonnes per annum to 140 million tonnes per annum capacity and additional rolling stock and infrastructure.	803	This project was also approved in October 2005 and completion is expected by the end of 2007.
Titanium dioxide – Construction by QMM (Rio Tinto: 80%) of a greenfield ilmenite operation in Madagascar and associated upgrade of processing facilities at QIT.	850	Basic infrastructure is being put in place and the port construction contract was awarded in 2006. First production is scheduled for 2008.
Gold – Development of Cortez Hills (Rio Tinto: 40%).	504	Approved in September 2005, the project continues to focus on permitting requirements.
Energy – Rössing (Rio Tinto: 68.6%) uranium mine life extension to 2016.	82	Approved in December 2005, works are on schedule and on budget to prolong the life of the mine to 2016 and beyond.
Diamonds – Argyle (Rio Tinto: 100%) development of underground mine and open pit cutback, extending the life of the mine to 2018.	910	Approved in December 2005, the underground development is progressing with the mine due to start ramping up from 2008. Underground development cost estimates are currently under review.
Recently approved		
Iron ore – Hope Downs development (Rio Tinto share: 50% of mine and 100% of infrastructure). Construction of 22 million tonnes per annum mine and related infrastructure.	980	Construction is under way. First production expected in early 2008.
Copper – Northparkes (Rio Tinto: 80%) E48 block cave project extending mine life to 2016.	160	Approved in November 2006.
Energy – Clermont (Rio Tinto: 50.1%) is expected to produce 12.2 million tonnes per annum, replacing Blair Athol.	750	Approved in January 2007, first shipments are expected in the second quarter of 2010 with full capacity being reached in 2013.
Iron ore – Cape Lambert port expansion (Rio Tinto share: 53%) from 55 to 80 million tonnes per annum.	860	Approved in January 2007, the project is forecast to be complete by the end of 2008, with progressive capacity ramp up in the first half of 2009.

ACQUISITIONS

Asset	**Estimated cost**	**Status**

	US$m	
Acquired in 2004		
Energy – additional 177 million tonnes of in-situ coal reserves at West Antelope	146	Successful bid.
Acquired in 2005		
Iron ore – Hope Downs iron ore assets in Western Australia	n/a	Rio Tinto reached agreement with Hancock Prospecting Pty Ltd to purchase a 50% interest.
Acquired in 2006		
Copper – Ivanhoe Mines (Rio Tinto: 9.9%)	303	Agreement to acquire a strategic stake including, upon completion of satisfactory a long term investment agreement with the Mongolian government, a second tranche of 9.9% for US$338m.
Copper – Northern Dynasty Minerals (Rio Tinto: 9.9%)		Increased stake to 19.8% during February 2007

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DIVESTITURES

Asset	Estimated proceeds US$m	Status
Divested in 2004		
Copper – Mineração Serra da Fortaleza Ltda (Rio Tinto: 100%) nickel mining company.	80	Sold to Votorantim Metais, a Brazilian controlled mining company. Proceeds included an adjustment for future nickel prices.
Other operations – Sepon project in Laos (Rio Tinto: 20%), comprising a gold operation and the Khanong copper project.	85	Sold to Oxiana Limited.
Copper – Freeport-McMoRan Copper & Gold Inc (FCX) (Rio Tinto: 13.1%).	882	Rio Tinto retains its 40 per cent joint venture interest in reserves discovered after 1994 at the Grasberg mine, which is managed by FCX. The sale of FCX shares does not affect the terms of the joint venture nor the management of the Grasberg mine.
Copper – Zinkgruvan Mining AB (Rio Tinto: 100%)	n/a	Sold to South Atlantic Ventures. Zinkgruvan was acquired in 2000 as part of North Ltd.
Copper – Neves Corvo copper mine in Portugal (Rio Tinto: 49%)	92	Rio Tinto and Empresa de Desenvolvimento Mineiro completed the sale of their interests to EuroZinc for a cash consideration and a participation in the average copper price in excess of certain thresholds.
Diamonds – Rio Tinto Zimbabwe (RioZim) (Rio Tinto: 56%)	n/a	As a result of a restructuring of Rio Tinto's interests in Zimbabwe, it became the holder of a direct 78% interest in Murowa, and RioZim became an independent listed company owning the remaining 22% and certain other Zimbabwean interests. Rio Tinto also retains a reduced cash participation in RioZim's other interests for a period of ten years.
Energy – Hail Creek Joint Venture (Rio Tinto: 92%) **Iron ore** – Beasley River iron ore deposits (Rio Tinto: 100%)	150	Sale of a 10% interest in the Hail Creek Joint Venture and a 47% interest in the Beasley River iron ore deposits to Rio Tinto's Japanese partners.
Copper – Rio Paracatu Mineração (Rio Tinto: 51%)	250	The sale of the owner of the Morro do Ouro mine in Brazil.
Divested in 2005		
Iron ore – Labrador Iron Ore Royalty Income Fund (LIORIF) (Rio Tinto: 19%)	130	LIORIF has an interest of 15.1% in, and receives royalties from, Iron Ore Company of

		Canada (IOC), a subsidiary of Rio Tinto. The transaction had no effect on Rio Tinto's 59% direct interest in IOC.
Other operations – Lihir Gold (Rio Tinto: 14.5%)	295	Rio Tinto relinquished its management agreement with Lihir, and subsequently sold its interest.
Divested in 2006		
Aluminium – Eurallumina SpA (Rio Tinto: 56.2%)	n/a	Sold to RUSAL
Diamonds – Ashton Mining of Canada Inc (Rio Tinto: 51.7%)	n/a	Sold to Stornaway Diamond Corporation for US$26m plus shares representing an interest of 17.7%

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BUSINESS ENVIRONMENTS, MARKETS AND REGULATIONS

Competitive environment

Rio Tinto is a major producer in all the metals and minerals markets in which it operates. It is generally among the top five global producers by volume. The competitive arena is spread across the globe.

Most of Rio Tinto's competitors are private sector companies which are publicly quoted. Several are, like Rio Tinto, diversified in terms of commodity exposure, but others are focused on particular commodity segments. Metal and mineral markets are highly competitive, with few barriers to entry. They can be subject to price declines in real terms reflecting large productivity gains, increasing technical sophistication, better management and advances in information technology.

High quality and long life mineral resources, the basis of good financial returns, are relatively scarce. Rio Tinto's ownership of or interest in some of the world's largest deposits enables it to contribute to long term market growth. World production volumes are likely to grow at least in line with global economic activity. The emergence of China and eventually India as major economies requiring metals and minerals for development could mean even higher market growth.

Economic overview

The world economy grew by 4.9 per cent in 2006 on a purchasing power parity basis. This was the fourth successive year of global growth in excess of four per cent.

Growth was broad based, but once again the US and China provided the bedrock for this expansion. Although the pace of US economic growth progressively slowed over the course of the year, as the housing market faltered, it still managed to rise by 3.3 per cent over its 2005 level. Chinese growth for the year was 10.5 per cent, its biggest annual increase in over a decade. The Japanese economy rose 2.4 per cent and in Asia as a whole growth was 5.1 per cent. Latin America grew by 4.8 per cent and activity picked up in Europe, rising by 2.7 per cent on 2005.

Despite this sustained rapid global growth and higher commodity prices, global inflation remained relatively tame. Central banks have increased interest rates as the balance of inflationary pressure has shifted towards the upside. Even the Japanese Central Bank raised interest rates for the first time since 2001, but this has been a progressive development and both financial and foreign exchange markets have been stable.

These strong underlying economic conditions, a general ongoing low level of commodity stock availability and continued delays in bringing on new supply contributed to further large increases in commodity prices in the first half of 2006. In the second half of 2006 some general easing in prices was recorded as the pace of demand growth slowed and expectations of faster supply growth filtered through. There are however some important differences between trends in individual commodities. With few exceptions prices remain well above their historical levels and significantly so in many cases.

Strong growth in Chinese iron ore imports continued into 2006 and the already tight market conditions worsened following heavy rain early in the year. After a record price increase of 71.5 per cent during 2005 a further 19 per cent was agreed in 2006. Benchmark prices are set to rise a further 9.5 per cent in 2007.

The cash price of copper reached a record high of almost US$4 per pound in May 2006, but finished the year on a weaker tone and over the year averaged US$3.06 per pound.

After lagging the other base metals in 2005 the aluminium price rose to an annual average of US$1.16 a pound in 2006, its highest in real terms for 17 years. Whilst the metal was strong, spot alumina prices fell sharply later in the year as a surge in Chinese refinery production came on the market. After starting the year at US$650 a tonne, spot alumina ended not much above US$200.

The volatility seen in metals markets last year was replicated in the energy sector. Spot prices for seaborne thermal coal reached the low US$50s a tonne early in 2006, but were US$10 per tonne off their peak later in the year. The annual average price was similar to that achieved in 2005. After more than doubling in the 2005/6 marketing year, coking coal prices fell slightly in 2006/7 in response to mixed demand in their major markets. Prices for Powder River Basin coal in the US started the year at very high levels and although they ended the year somewhat weaker the annual average price was up 25-30 per cent (depending on grade) over 2005 levels. Uranium prices rose sharply during 2006 on concerns about low stocks. Spot prices doubled over the course of the year.

Demand for industrial minerals such as borates and titanium minerals continued to benefit from solid US demand in the first half of the year but concerns about the US housing market dampened expectations in the

latter part of the year.

Diamond prices started the year on a very firm basis but conditions declined, due to monsoon flooding in major Indian cutting and polishing centres, and increased stockholding costs in the jewellery supply chain.

Gold prices have not seen the same degree of escalation as other metals but recorded a strong trend in 2006, averaging over US$600 per ounce over the year as a whole, up 36 per cent on 2005.

Many less widely traded metals have also continued to benefit from firm demand. The molybdenum price averaged US$25 per pound in 2006, down on its 2005 level but still historically high.

Marketing channels

Rio Tinto's marketing channels are described under "Marketing" on page 66.

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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, New Zealand, and Indonesia are subject to state, provincial 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.

The South African Mineral and Petroleum Resources Development Act 2002, as read with the Empowerment Charter for the South African Mining Industry, targets the transfer (for fair value) of 26 per cent ownership of existing South African mining assets to historically disadvantaged South Africans (HDSAs) within ten years. Attached to the Empowerment Charter is a "scorecard" by which companies will be judged on their progress towards empowerment and the attainment of the target transfer of 26 per cent ownership. The scorecard also provides that in relation to existing mining assets, 15 per cent ownership should vest in HDSAs within five years of 1 May 2004. Rio Tinto anticipates that the government of South Africa will continue working towards the introduction of new royalty payments in respect of mining tenements, expected to become effective during 2009.

Environmental regulation

Rio Tinto measures its performance against environmental regulation referred to in the previous section 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 board *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 2006, there were eight reportable incidents, the same number as in 2005. Three of these incidents resulted in spills which caused minor contamination.

Four operations incurred fines in 2006 amounting to US$56,779 (predominantly relating to incidents in 2005) compared with three operations incurring fines of US$67,900 during 2005. The 2006 fines included:

- US$38,500 imposed by the Utah State government's Department of Environmental Quality, Division of Air Quality against Kennecott Utah Copper for exceeding the permissible concentration of emissions of fine particles from its smelter near Salt Lake City, Utah on two occasions. However, the mass emission rate was below the threshold permitted.
- US$12,900 imposed by the United States Environmental Protection Agency following a spill at Greens Creek base and precious metals mine, Alaska of four gallons of diesel fuel during exploration drilling. The company and the drilling contractor have implemented additional controls and training to prevent any further spills.

Further information in respect of the Group's environmental performance is in the 2006 *Sustainable development review* available on the Rio Tinto website.

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GROUP MINES

Mine	Location	Access	Title/lease
ALUMINIUM			
Rio Tinto Aluminium Weipa	Weipa, Queensland, Australia	Road, air, and port	Queensland Government lease expires in 2041 with 21 year extension, then two years' notice of termination
COPPER			
Escondida (30%)	Atacama Desert, Chile	Pipeline and road to deep sea port at Coloso	Rights conferred by Government under Chilean Mining Code
Grasberg joint venture (40%)	Papua, Indonesia	Pipeline, road and port	Indonesian Government Contracts of Work expire in 2021 with option of two ten year extensions
Kennecott Minerals Cortez/Pipeline (40%)	Nevada, US	Road	Patented and unpatented mining claims
Kennecott Minerals Greens Creek (70%)	Alaska, US	Port	Patented and unpatented mining claims
Kennecott Utah Copper Bingham Canyon	Near Salt Lake City, Utah, US	Pipeline, road and rail	Owned
Northparkes (80%)	Goonumbla, New South Wales, Australia	Road and rail	State Government mining lease issued in 1991 for 21 years
Palabora (58%)	Phalaborwa, Northern Province, South Africa	Rail and road	Lease from South African Government valid until deposits exhausted. Base metal claims owned by Palabora
DIAMONDS			
Argyle Diamonds	Kimberley Ranges, Western Australia	Road and air	Mining tenement held under Diamond (Argyle Diamond Mines Joint Venture) Agreement Act 1981-83; lease extended for 21 years from 2004
Diavik (60%)		Air, ice road in winter	

	Northwest Territories, Canada		Mining leases from Canadian federal government
Murowa (78%)	Zvishavane, Zimbabwe	Road and air	Claims and mining leases
ENERGY			
Energy Resources of Australia (68%) Ranger	Northern Territory, Australia	Road	Leases granted by State

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GROUP MINES

Mine	History	Type of mine	Power source
ALUMINIUM			
Rio Tinto Aluminium Weipa	Bauxite mining commenced in 1961. Major upgrade completed in 1998. Rio Tinto interest increased from 72.4% to 100% in 2000. In 2004 a mine expansion was completed that has lifted annual capacity to 16.5 million tonnes. Mining commenced on the adjacent Ely mining lease in 2006, in accordance with the 1998 agreement with Alcan. A second shiploader that increases the shipping capability of the Weipa operation was commissioned in 2006	Open cut	On site generation; new power station under construction
COPPER			
Escondida (30%)	Production started in 1990 and expanded in phases to 2002 when new concentrator was completed; production from Norte commenced in 2005 and the sulphide leach produced the first cathode during 2006	Open pit	Supplied from SING grid under various contracts with Norgener Gas Atacama and Edelnor
Grasberg joint venture (40%)	Joint venture interest acquired 1995; capacity expanded to over 200,000 tonnes of ore per day in 1998 with addition of underground production of more than 35,000 tonnes per day in 2003 with an expansion to a sustained rate of 50,000 tones per day by mid 2007	Open pit and underground	Long term contract with US-Indonesian consortium operated, purpos e built, coal fired generating station
Kennecott Minerals Cortez/Pipeline (40%)	Gold production started at Cortez in 1969, Pipeline in 1997 and Cortez Hills was approved in 2005.	Open pit	Public utility

Kennecott Minerals Greens Creek (70%)	Redeveloped in 1997	Underground / drift and fill	On site diesel generators
Kennecott Utah Copper Bingham Canyon	Interest acquired in 1989; modernisation includes smelter complex and expanded tailings dam	Open pit	On site generation supplemented by long term contracts with Utah Power and Light
Northparkes (80%)	Interest acquired in 2000; production started in 1995	Open pit and underground	Supplied from State grid
Palabora (58%)	Development of 20 year underground mine commenced 1996 with open pit closure in 2003	Underground	Supplied by ESCOM via grid network
DIAMONDS			
Argyle Diamonds	Interest increased from 59.7% following purchase of Ashton Mining in 2000. Underground mine project approved in 2005 to extend mine life to 2018	Open pit	Long term contract with Ord Hydro Consortium and on site generation back up
Diavik (60%)	Deposits discovered 1994-1995; construction approved 2000; diamond production started 2003. Second dyke closed off in 2005 for mining of additional orebody	Open pit to underground in future	On site diesel generators; installed capacity 27MW
Murowa (78%)	Discovered 1997; small scale production started 2004	Open pit	Supplied by ZESA
ENERGY			
Energy Resources of Australia (68%) Ranger	Mining commenced 1981; interest acquired through North in 2000; life of mine extension to 2014 announced in 2005	Open pit	On site diesel/steam power generation

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GROUP MINES

Mine	Location	Access	Title/lease
ENERGY (continued)			
Rio Tinto Coal Australia Bengalla (30%) Blair Athol (71%) Hail Creek (82%) Hunter Valley Ops. (76%) Kestrel (80%) Mount Thorley Ops. (61%) Tarong Coal Warkworth (42%)	New South Wales and Queensland, Australia	Road, rail conveyor and port	Leases granted by State
Rio Tinto Energy America Antelope Colowyo (20%) Cordero Rojo Decker (50%) Jacobs Ranch Spring Creek	Wyoming, Montana and Colorado, US	Rail and road	Leases from US and State Governments and private parties, with minimum coal production levels, and adherence to permit requirements and statutes
Rössing Uranium (69%)	Namib Desert, Namibia	Rail, road and port	Federal lease
INDUSTRIAL MINERALS			
Rio Tinto Minerals - Boron	California, US	Road, rail and port	Owned
Rio Tinto Minerals - salt (65%)	Dampier, Lake MacLeod and Port Hedland, Western Australia	Road and port	Mining leases expiring in 2013 at Dampier, 2018 at Port Hedland and 2021 at Lake MacLeod with options to renew in each case
Rio Tinto Minerals - talc	Trimouns, France (other smaller operations in Australia, Europe and North America)	Road and rail	Owner of ground (orebody) and long term lease agreement to 2012
QIT-Fer et Titane	Saguenay County, Quebec, Canada	Rail and port (St Lawrence River)	Mining covered by two Concessions granted by State in 1949 and 1951 which, subject to certain Mining Act restrictions, confer rights and obligations of an owner

Richards Bay Minerals (50%)	Richards Bay, KwaZulu - Natal, South Africa	Rail, road and port	Long term renewable leases ; State lease for Reserve 4 initially runs to end 2022; Ingonyama Trust lease for Reserve 10 runs to 2010
IRON ORE			
Hamersley Iron Brockman Marandoo Mount Tom Price Nammuldi Paraburdoo Yandicoogina Channar (60%) Eastern Range (54%)	Hamersley Ranges, Western Australia	Railway and port (owned by Hamersley Iron and operated by Pilbara Iron)	Agreements for life of mine with Government of We stern Australia
Iron Ore Company of Canada (59%)	Labrador City, Province of Labrador and Newfoundland	Railway and port facilities in Sept-Iles, Quebec (owned and operated by IOC)	Sublease with the Labrador Iron Ore Royalty Income Fund which has lease agreements with the Government of Newfoundland and Labrador that are due to be renewed in 2020 and 2022
Rio Tinto Brasil Corumbá	Matto Grosso do Sul, Brazil	Road, air and river	Government licence for undetermined period
Robe River Iron Associates (53%) Mesa J West Angelas	Pilbara region, Western Australia	Railway and port (owned by Robe River and operated by Pilbara Iron)	Agreements for life of mine with Government of We stern Australia

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GROUP MINES

Mine	History	Type of mine	Power source
ENERGY (continued)			
Rio Tinto Coal Australia Bengalla (30%) Blair Athol (71%) Hail Creek (82%) Hunter Valley Ops. (76%) Kestrel (80%) Mount Thorley Ops. (61%) Tarong Coal Warkworth (42%)	Peabody Australian interests acquired in 2001. Production started for export at Blair Athol and adjacent power station at Tarong in 1984. Kestrel acquired and recommissioned 1999. Hail Creek started 2003.	Open cut and underground (Kestrel)	State owned grid
Rio Tinto Energy America Antelope Colowyo (20%) Cordero Rojo Decker (50%) Jacobs Ranch Spring Creek	Antelope, Spring Creek, Decker and Cordero acquired in 1993, Colowyo in 1995, Caballo Rojo in 1997, Jacobs Ranch in 1998 and West Antelope in 2004	Open cut	Supplied by IPPs and Cooperatives through national grid service
Rössing Uranium (69%)	Production began in 1978. Life of mine extension to 2016 approved in 2005	Open pit	Namibian National Power
INDUSTRIAL MINERALS			
Rio Tinto Minerals - Boron	Deposit discovered in 1925, acquired by Rio Tinto in 1967	Open pit	On site co-generation units
Rio Tinto Minerals - salt (65%)	Construction of the Dampier field started in 1969; first shipment in 1972. Lake MacLeod was acquired in 1978 as an operating field	Solar evaporation of seawater (Dampier and Port Hedland) and underground brine (Lake MacLeod); dredging of gypsum from surface of Lake MacLeod	Dampier supply from Hamersley Iron Power; Lake MacLeod from Western Power and on site generation units; Port Hedland from Western Power
Rio Tinto Minerals - talc	Production started in 1885; acquired in 1988. (Australian mine acquired in 2001)	Open pit	Supplied by EdF and on site generation units
QIT-Fer et Titane	Production started 1950; interest acquired in 1989	Open pit	Long term contract with Quebec Hydro

Richards Bay Minerals (50%)	Production started 1977; interest acquired 1989; fifth dredge commissioned 2000	Beach sand dredging	Contract with ESCOM
IRON ORE			
Hamersley Iron Brockman Marandoo Mount Tom Price Nammuldi Paraburdoo Yandicoogina Channar (60%) Eastern Range (54%)	Annual capacity increased to 68 million tonnes during 1990s; Yandicoogina first ore shipped in 1999 and port capacity increased; Eastern Range mine started 2004	Open pits	Supplied through the integrated Hamersley and Robe power network operated by Pilbara Iron
Iron Ore Company of Canada (59%)	Current operation began in 1962 and has processed over one billion tonnes of crude ore since; annual capacity now 17.5 million tonnes of concentrate of which 13.5 million tonnes can be pelletised. Interest acquired in 2000 through North	Open pit	Supplied by Newfoundland Hydro under long term contract
Rio Tinto Brasil Corumbá	Iron ore production started 1978; interest acquired in 1991	Open pit	Supplied by ENERSUL
Robe River Iron Associates (53%) Mesa J West Angelas	First shipment in 1972; annual sales reached 30 million tonnes in late 1990s; interest acquired in 2000 through North; West Angelas first ore shipped in 2002 and mine expanded in 2005	Open pit	Supplied through the integrated Hamersley and Robe power network operated by Pilbara Iron

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GROUP SMELTERS

Smelter, refinery or plant	Location	Title/lease	Plant type/product	Capacity
ALUMINIUM GROUP				

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METALS AND MINERALS PRODUCTION

		2004 Production (a)		2005 Production (a)		**2006 Production** (a)	
	Rio Tinto % share (b)	Total	Rio Tinto share	Total	Rio Tinto share	**Total**	**Rio Tinto share**
ALUMINA (□000 tonnes)							
Eurallumina (Italy) (c)	—	1,064	597	1,070	601	**914**	**513**
Queensland Alumina (Australia)	38.6	3,778	1,459	3,953	1,526	**3,871**	**1,494**
Yarwun (Australia) (d)	100.0	175	175	835	835	**1,240**	**1,240**
Rio Tinto total			2,231		2,963		**3,247**
ALUMINIUM (refined) (□000 tonnes)							
Anglesey (UK)	51.0	144.8	73.8	143.9	73.4	**143.8**	**73.3**
Bell Bay (Australia)	100.0	162.0	162.0	173.8	173.8	**177.5**	**177.5**
Boyne Island (Australia)	59.4	540.5	321.2	544.9	326.2	**545.1**	**325.0**
Tiwai Point (New Zealand)	79.4	350.3	279.5	351.4	280.3	**337.3**	**268.9**
Rio Tinto total			836.5		853.7		**844.7**
BAUXITE (□000 tonnes)							
Boké (Guinea) (e)	—	5,773	179	—	—	**—**	**—**
Weipa (Australia)	100.0	12,649	12,649	15,474	15,474	**16,139**	**16,139**
Rio Tinto total			12,828		15,474		**16,139**
BORATES (□000 tonnes) (f)							
Rio Tinto Minerals - Boron (US)	100.0	543	543	540	540	**538**	**538**
Rio Tinto Minerals (Argentina)	100.0	22	22	20	20	**15**	**15**
Rio Tinto total			565		560		**553**
COAL □ HARD COKING (□000 tonnes)							
Rio Tinto Coal Australia (g)							
Hail Creek Coal (Australia) (h)	82.0	5,104	4,633	5,900	4,838	**4,544**	**3,726**
Kestrel Coal (Australia)	80.0	2,659	2,127	2,946	2,357	**2,729**	**2,183**
Rio Tinto total hard coking coal			6,760		7,195		**5,909**
COAL □ OTHER* (□000 tonnes)							
Rio Tinto Coal Australia (g)							
Bengalla (Australia)	30.3	5,312	1,609	5,965	1,806	**5,544**	**1,679**
Blair Athol (Australia)	71.2	12,229	8,712	10,600	7,551	**10,190**	**7,259**

Hunter Valley Operations (Australia)	75.7	13,269	10,046	12,374	9,369	**12,024**	**9,104**
Kestrel Coal (Australia)	80.0	623	499	774	619	**863**	**691**
Mount Thorley Operations (Australia)	60.6	3,548	2,149	3,962	2,400	**3,895**	**2,359**
Tarong Coal (Australia)	100.0	7,004	7,004	6,470	6,470	**6,979**	**6,979**
Warkworth (Australia)	42.1	6,954	2,926	6,293	2,647	**7,342**	**3,089**
Total Australian other coal			32,943		30,863		**31,159**
Rio Tinto Energy America (i)							
Antelope (US)	100.0	26,928	26,928	27,174	27,174	**30,749**	**30,749**
Colowyo (US)	(j)	5,788	5,788	5,325	5,325	**5,754**	**5,754**
Cordero Rojo (US)	100.0	35,233	35,233	34,234	34,234	**36,094**	**36,094**
Decker (US)	50.0	7,831	3,916	6,288	3,144	**6,449**	**3,225**
Jacobs Ranch (US)	100.0	34,979	34,979	33,823	33,823	**36,258**	**36,258**
Spring Creek (US)	100.0	10,892	10,892	11,881	11,881	**13,181**	**13,181**
Total US coal			117,734		115,580		**125,260**
Rio Tinto total other coal			150,677		146,443		**156,418**

* Coal other includes thermal coal, semi-soft coking coal and semi-hard coking coal.

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METALS AND MINERALS PRODUCTION continued

		2004 Production (a)		2005 Production (a)		**2006 Production (a)**	
	Rio Tinto % share (b)	Total	Rio Tinto share	Total	Rio Tinto share	**Total**	**Rio Tinto share**
COPPER (mined) (□000 tonnes)							
Bingham Canyon (US)	100.0	263.7	263.7	220.6	220.6	**265.6**	**265.6**
Escondida (Chile)	30.0	1,207.1	362.1	1,270.2	381.1	**1,313.4**	**394.0**
Grasberg □ FCX (Indonesia) (k)	—	396.4	5.5	—	—	**—**	**—**
Grasberg □ Joint Venture (Indonesia) (k)	40.0	120.0	48.0	273.9	109.6	**115.5**	**46.2**
Neves Corvo (Portugal) (l)	—	46.9	23.0	—	—	**—**	**—**
Northparkes (Australia)	80.0	30.0	24.0	54.0	43.2	**83.3**	**66.6**
Palabora (South Africa) (m)	57.7	54.4	26.8	61.2	30.0	**61.5**	**31.1**
Rio Tinto total			753.1		784.4		**803.5**
COPPER (refined) (□000 tonnes)							
Atlantic Copper (Spain) (k)	—	58.4	7.0	—	—	**—**	**—**
Escondida (Chile)	30.0	152.1	45.6	143.9	43.2	**134.4**	**40.3**
Kennecott Utah Copper (US)	100.0	246.7	246.7	232.0	232.0	**217.9**	**217.9**
Palabora (South Africa) (m)	57.7	67.5	33.2	80.3	39.3	**81.2**	**40.9**
Rio Tinto total			332.6		314.5		**299.2**
DIAMONDS (□000 carats)							
Argyle (Australia)	100.0	20,620	20,620	30,476	30,476	**29,078**	**29,078**
Diavik (Canada)	60.0	7,575	4,545	8,272	4,963	**9,829**	**5,897**
Murowa (Zimbabwe) (n)	77.8	47	36	251	195	**240**	**187**
Rio Tinto total			25,202		35,635		**35,162**
GOLD (mined) (□000 ounces)							
Barneys Canyon (US)	100.0	22	22	16	16	**15**	**15**
Bingham Canyon (US)	100.0	308	308	401	401	**523**	**523**
Cortez/Pipeline (US)	40.0	1,051	421	904	361	**444**	**178**
Escondida (Chile)	30.0	217	65	183	55	**170**	**51**
Grasberg □ FCX (Indonesia) (k)	—	1,377	14	—	—	**—**	**—**
Grasberg □ Joint Venture (Indonesia) (k)	40.0	207	83	1,676	670	**238**	**95**
Greens Creek (US)	70.3	86	61	73	51	**63**	**44**
Kelian (Indonesia)	90.0	328	295	43	38	**—**	**—**
Lihir (Papua New Guinea) (o)	—	599	87	424	61	**—**	**—**
Morro do Ouro (Brazil) (p)	—	188	96	—	—	**—**	**—**

Northparkes (Australia)	80.0	79	63	57	46	**95**	**76**
Rawhide (US)	51.0	50	25	35	18	**26**	**13**
Rio Tinto Zimbabwe (Zimbabwe) (q)	—	11	6	—	—	**—**	**—**
Others	—	13	7	15	7	**18**	**9**
Rio Tinto total			1,552		1,726		**1,003**
GOLD (refined) (□000 ounces)							
Kennecott Utah Copper (US)	100.0	300	300	369	369	**462**	**462**
IRON ORE (□000 tonnes)							
Channar (Australia)	60.0	9,759	5,855	8,644	5,186	**9,798**	**5,879**
Corumbá (Brazil)	100.0	1,301	1,301	1,410	1,410	**1,982**	**1,982**
Eastern Range (Australia)	(r)	2,970	2,970	6,559	6,559	**8,215**	**8,215**
Hamersley Iron (Australia)	100.0	65,407	65,407	74,387	74,387	**79,208**	**79,208**
Iron Ore Company of Canada (Canada)	58.7	11,139	6,541	15,647	9,188	**16,080**	**9,442**
Robe River (Australia)	53.0	48,459	25,684	52,385	27,764	**52,932**	**28,054**
Rio Tinto total			107,757		124,494		**132,780**

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METALS AND MINERALS PRODUCTION continued

		2004 Production (a)		2005 Production (a)		**2006 Production** (a)	
	Rio Tinto % share (b)	Total	Rio Tinto share	Total	Rio Tinto share	**Total**	**Rio Tinto share**
LEAD (□000 tonnes)							
Greens Creek (US)	70.3	19.8	13.9	16.9	11.9	**16.9**	**11.9**
Zinkgruvan (Sweden) (s)	—	11.2	11.2	—	—	**—**	**—**
Rio Tinto total			25.1		11.9		**11.9**
MOLYBDENUM (□000 tonnes)							
Bingham Canyon (US)	100.0	6.8	6.8	15.6	15.6	**16.8**	**16.8**
NICKEL (refined) (□000 tonnes)							
Empress (Zimbabwe) (q)	—	2.9	1.6	—	—	**—**	**—**
PIG IRON (□000 tonnes)							
HIsmelt® (Australia) (t)	60.0	**—**	**—**	9	5	**89**	**53**
SALT (□000 tonnes)							
Rio Tinto Minerals - salt (Australia)	64.9	7,380	4,792	8,480	5,507	**8,323**	**5,405**
SILVER (mined) (□000 ounces)							
Bingham Canyon (US)	100.0	3,584	3,584	3,958	3,958	**4,214**	**4,214**
Escondida (Chile)	30.0	5,747	1,724	6,565	1,970	**6,646**	**1,994**
Grasberg □ FCX (Indonesia) (k)	—	3,077	79	—	—	**—**	**—**
Grasberg □ Joint Venture (Indonesia) (k)	40.0	1,961	784	3,410	1,364	**1,675**	**670**
Greens Creek (US)	70.3	9,707	6,821	9,664	6,791	**8,866**	**6,230**
Zinkgruvan (Sweden) (s)	—	651	651	—	—	**—**	**—**
Others	—	2,025	1,187	1,422	843	**1,345**	**861**
Rio Tinto total			14,830		14,926		**13,968**
SILVER (refined) (□000 ounces)							
Kennecott Utah Copper (US)	100.0	3,344	3,344	3,538	3,538	**4,152**	**4,152**
TALC (□000 tonnes)							
Rio Tinto Minerals □ talc (Australia/Europe/N. America) (u)	100.0	1,444	1,443	1,364	1,364	**1,392**	**1,392**
TIN (tonnes)							
Neves Corvo (Portugal) (l)	—	120	59	—	—	**—**	**—**

TITANIUM DIOXIDE FEEDSTOCK (□000 tonnes)							
Rio Tinto Iron & Titanium (Canada/South Africa) (v)	100.0	1,192	1,192	1,312	1,312	**1,415**	**1,415**
URANIUM (tonnes U_3O_8)							
Energy Resources of Australia (Australia)	68.4	5,143	3,517	5,903	4,037	**4,704**	**3,217**
Rössing (Namibia)	68.6	3,582	2,457	3,711	2,545	**3,617**	**2,481**
Rio Tinto total			5,974		6,582		**5,698**
ZINC (mined) (□000 tonnes)							
Greens Creek (US)	70.3	62.7	44.1	52.9	37.2	**47.5**	**33.4**
Zinkgruvan (Sweden) (s)	—	29.7	29.7	—	—	**—**	**—**
Rio Tinto total			73.8		37.2		**33.4**

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METALS AND MINERALS PRODUCTION continued

Notes

(a) Mine production figures for metals refer to the total quantity of metal produced in concentrates or doré bullion irrespective of whether these products are then refined onsite, except for the data for iron ore and bauxite which represent production of saleable quantities of ore.

(b) Rio Tinto percentage share, shown above, is as at the end of 2006 and has applied over the period 2004 – 2006 except for those operations where the share has varied during the year and the weighted average for them is shown below. The Rio Tinto share varies at individual mines and refineries in the "Others" category and thus no value is shown.

Rio Tinto share %

Operation	See Note	2004	2005	**2006**
Atlantic Copper	(k)	12.0	—	**—**
Grasberg	(k)	10.8	—	**—**
Hail Creek	(h)	90.8	82.0	**82.0**
Palabora	(m)	49.2	49.0	**50.5**

(c) Rio Tinto sold its 56.2 per cent share in Eurallumina with an effective date of 31 October 2006 and production data are shown up to that date.

(d) Yarwun, previously known as Comalco Alumina Refinery, started production in October 2004.

(e) Rio Tinto completed the sale of its four per cent interest in the Boké mine on 25 June 2004. Production data are shown up t o the date of sale.

(f) Borate quantities are expressed as B_2O_3.

(g) Rio Tinto Coal Australia manages all the Australian coal operations including the mines which were previously reported separately under the Coal & Allied name.

(h) Rio Tinto reduced its shareholding in Hail Creek from 92.0 per cent to 82.0 per cent on 15 November 2004.

(i) Rio Tinto Energy America was previously known as Kennecott Energy.

(j) In view of Rio Tinto Energy America's responsibilities under a management agreement for the operation of the Colowyo mine, all of Colowyo's output is included in Rio Tinto's share of production.

(k) From mid 1995 until 30 March 2004, Rio Tinto held 23.93 million shares of Freeport-McMoRan Copper & Gold (FCX) common stock from which it derived a share of production. This interest was sold to FCX on 30 March 2004. Also, through a joint venture agreement with FCX, Rio Tinto is entitled, as shown separately in the above tables, to 40 per cent of additional material mined as a consequence of expansions and developments of the Grasberg facilities since 1998.

(l) Rio Tinto completed the sale of its 49 per cent interest in Somincor on 18 June 2004. Production data are shown up to the d ate of sale.

(m) During the second half of 2005, the conversion of debentures into ordinary shares resulted in a dilution of Rio Tinto's shareholding in Palabora from 49.2 per cent to 47.2 per cent. The conversions, which continued during 2006, were completed during the third quarter when Rio Tinto also participated, ending the year with a 57.7 per cent interest.

(n) Ore mining and processing at Murowa commenced during the third quarter of 2004.

(o) On 30 November 2005, Rio Tinto sold its 14.5 per cent in Lihir Gold; it had agreed in September 2005 to relinquish the management agreement for Lihir. The production data are shown up to 30 September 2005, from which date the Rio Tinto interest in Lihir was held as an investment rather than being equity accounted..

(p) Rio Tinto sold its 51 per cent interest in Morro do Ouro on 31 December 2004. Production data are shown up to the date of sale.

(q) As a result of the corporate restructuring completed on 8 July 2004, Rio Tinto has ceased to be an ordinary shareholder in the renamed RioZim but will retain a reduced cash participation in its gold and nickel assets for a period of ten years.

(r) Rio Tinto's share of production includes 100 per cent of the production from the Eastern Range mine, which commenced production in March 2004. Under the terms of the joint venture agreement (Rio Tinto 54 per cent), Hamersley Iron manages the operation and is obliged to purchase all mine production from the joint venture.

(s) Rio Tinto completed the sale of its 100 per cent interest in the Zinkgruvan mine on 2 June 2004. Production data are shown up to the date of sale.

(t) HIsmelt® commenced production during September 2005.

(u) Talc production includes some products derived from purchased ores.

(v) Quantities comprise 100 per cent of QIT and 50 per cent of Richards Bay Minerals' production.

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ORE RESERVES
(under Industry Guide 7)

Reserves have been prepared in accordance with Industry Guide 7 under the United States Securities Act of 1933 and the following definitions:

- An Ore Reserve means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserves determination. To establish this, studies appropriate to the type of mineral deposit involved have been carried out to estimate the quantity, grade and value of the ore mineral(s) present. In addition, technical studies have been completed to determine realistic assumptions for the extraction of the minerals including estimates of mining, processing, economic, marketing, legal, environmental, social and governmental factors. The degree of these studies is sufficient to demonstrate the technical and economic feasibility of the project and depends on whether or not the project is an extension of an existing project or operation. The estimates of minerals to be produced include allowances for ore losses and the treatment of unmineralised materials which may occur as part of the mining and processing activities. Ore Reserves are sub- divided in order of increasing confidence into Probable Ore Reserves and Proven Ore Reserves as defined below.
- The term “economically”, as used in the definition of reserves, implies that profitable extraction or production under defined investment assumptions has been established through the creation of a mining plan, processing plan and cash flow model. The assumptions made must be reasonable, including costs and operating conditions that will prevail during the life of the project.
- Ore reserves presented in accordance with SEC Industry Guide 7 do not exceed the quantities that, it is estimated, could be extracted economically if future prices were to be in line with the average of historical prices for the three years to 30 June 2006, or contracted prices where applicable. For this purpose, contracted prices are applied only to future sales volumes for which the price is predetermined by an existing contract; and the average of historical prices is applied to expected sales volumes in excess of such amounts. Moreover, reported ore reserve estimates have not been increased above the levels expected to be economic based on Rio Tinto's own long term price assumptions.
- The term “legally”, as used in the definition of reserves, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for reserves to exist, there is reasonable assurance of the issuance of these permits or resolution of legal issues. Reasonable assurance means that, based on applicable laws and regulations, the issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a timeframe consistent with the Company s current mine plans.
- The term “proven reserves” means reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established. Proven reserves represent that part of an orebody for which there exists the highest level of confidence in data regarding its geology, physical characteristics, chemical composition and probable processing requirements.
- The term “probable reserves” means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. This means that probable reserves generally have a wider drill hole spacing than for proven reserves.
- The amount of proven and probable reserves shown below does not necessarily represent the amount of material currently scheduled for extraction, because the amount scheduled for extraction may be derived from a life of mine plan predicated on prices and other assumptions which are different to those used in the life of mine plan prepared in accordance with Industry Guide 7.
- The estimated ore reserve figures in the following tables are as of 31 December 2006. Metric units are used throughout. The figures used to calculate Rio Tinto's share of reserves are often more precise than the

rounded numbers shown in the tables, hence small differences might result if the calculations are repeated using the tabulated figures. Commodity price information is given in footnote (a).

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Total ore reserves at end 2006		Interest %	Rio Tinto share
		Tonnage	Grade		
BAUXITE (d)		**millions of tonnes**	**%Al_2O_3**		**Recoverable mineral millions of tonnes**
Reserves at operating mine					
Weipa (Australia)	O/P	**1,193**	**53.7**	100.0	**1,193**

				Marketable product millions of tonnes
BORATES (e)		**millions of tonnes**		
Reserves at operating mine				
Rio Tinto Minerals - Boron (US) (j)				
▯ mine	O/P	**19.8**	100.0	**19.8**
▯ stockpiles (i)	S/P	**2.1**	100.0	**2.1**
Rio Tinto total				**21.9**

		Coal type (g)	Marketable reserves	Marketable coal quality (h)	(h)		
COAL (f)			**millions of tonnes**	**Calorific value MJ/kg**	**Sulphur content %**		**Marketable reserves millions of tonnes**
Reserves at operating mines							
Rio Tinto Energy America (k)							
Antelope (US)	O/C	SC	**359**	**20.59**	**0.24**	100.0	**359**
Colowyo (US) (l)	O/C	SC	**14**	**24.39**	**0.39**	100.0	**14**
Cordero Rojo (US)	O/C	SC	**285**	**19.59**	**0.31**	100.0	**285**
Decker (US)	O/C	SC	**18**	**22.10**	**0.38**	50.0	**9**
Jacobs Ranch (US)	O/C	SC	**418**	**20.35**	**0.43**	100.0	**418**
Spring Creek (US)	O/C	SC	**199**	**21.75**	**0.33**	100.0	**199**
Total US coal							**1,283**
Rio Tinto Coal Australia							
Bengalla (Australia)	O/C	SC	**150**	**28.12**	**0.48**	30.3	**45**
Blair Athol (Australia)	O/C	SC	**42**	**27.13**	**0.30**	71.2	**30**
Hail Creek (Australia)	O/C	MC	**179**	**32.20**	**0.35**	82.0	**146**

Hunter Valley Operations (Australia)	O/C	SC + MC	**308**	**28.94**	**0.57**	75.7	**233**
Kestrel (Australia)	U/G	SC + MC	**112**	**32.20**	**0.65**	80.0	**90**
Mount Thorley Operations (Australia)	O/C	SC + MC	**23**	**29.48**	**0.46**	60.6	**14**
Warkworth (Australia)	O/C	SC + MC	**251**	**28.87**	**0.45**	42.1	**106**
Total Australian coal							**664**
Rio Tinto total reserves at operating mines							**1,946**
Undeveloped reserves (m)							
Rio Tinto Coal Australia							
Clermont (Australia)	O/C	SC	**189**	**27.90**	**0.33**	50.1	**95**
Mount Pleasant (Australia)	O/C	SC	**350**	**26.73**	**0.51**	75.7	**265**
Rio Tinto total undeveloped reserves							**360**

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Total ore reserves at end 2006		Average mill recovery %	Interest %	**Rio Tinto share**
		Tonnage	Grade			
COPPER		**millions of tonnes**	**%Cu**			**Recoverable metal millions of tonnes**
Reserves at operating mines						
Bingham Canyon (US)						
▯ mine	O/P	**604**	**0.54**	**86**	100.0	**2.802**
▯ stockpiles (i)	S/P	**37**	**0.33**	**86**	100.0	**0.107**
Escondida (Chile) (n)						
▯ sulphide mine	O/P	**1,360**	**1.06**	**85**	30.0	**3.681**
▯ sulphide leach mine	O/P	**1,412**	**0.51**	**34**	30.0	**0.744**
▯ oxide mine	O/P	**21**	**0.74**	**75**	30.0	**0.035**
▯ sulphide stockpiles (i)	S/P	**17**	**1.23**	**85**	30.0	**0.053**
▯ sulphide leach stockpiles (i)	S/P	**131**	**0.49**	**34**	30.0	**0.067**
▯ oxide stockpiles (i)	S/P	**57**	**0.67**	**75**	30.0	**0.086**
Escondida Norte (Chile) (n)						
▯ sulphide mine	O/P	**455**	**1.40**	**85**	30.0	**1.621**
▯ sulphide leach mine	O/P	**604**	**0.60**	**34**	30.0	**0.371**
▯ oxide mine	O/P	**22**	**1.55**	**75**	30.0	**0.076**
▯ sulphide stockpiles (i)	S/P	**0.1**	**4.07**	**85**	30.0	**0.001**
▯ sulphide leach stockpiles (i)	S/P	**1.5**	**0.52**	**34**	30.0	**0.001**
▯ oxide stockpiles (i)	S/P	**3.3**	**0.96**	**75**	30.0	**0.007**
Grasberg (Indonesia)	O/P + U/G	**2,813**	**1.04**	**88**	(o)	**7.584**
Northparkes (Australia)						
▯ mine	U/G	**46**	**1.06**	**91**	80.0	**0.355**
▯ stockpiles (i)	S/P	**3.8**	**0.67**	**85**	80.0	**0.017**
Palabora (South Africa) (p)						
▯ mine	U/G	**118**	**0.64**	**88**	57.7	**0.381**
Rio Tinto total						**17.989**

DIAMONDS (d)		**millions of tonnes**	**carats per tonne**			**Recoverable diamonds millions of carats**
Reserves at operating mines						
Argyle (Australia)						
▯ AK1 pipe mine (q)	O/P + U/G	**102**	**2.1**		100.0	**215.5**
▯ AK1 pipe stockpiles (i)	S/P	**3.9**	**1.3**		100.0	**5.0**
Diavik (Canada) (r)	O/P + U/G	**25**	**3.3**		60.0	**49.0**
Murowa (Zimbabwe)						
▯ mine	O/P	**22**	**0.7**		77.8	**11.8**
▯ stockpiles (i)	S/P	**0.1**	**1.2**		77.8	**0.1**

Rio Tinto total						**281.5**

GOLD		**millions of tonnes**	**grammes per tonne**			**Recoverable metal millions of ounces**
Reserves at operating mines						
Bingham Canyon (US)						
▯ mine	O/P	**604**	**0.31**	**64**	100.0	**3.882**
▯ stockpiles (i)	S/P	**37**	**0.20**	**64**	100.0	**0.151**
Cortez/Pipeline (US) (s)						
▯ mine	O/P	**125**	**1.83**	**73**	40.0	**2.131**
▯ stockpiles (i)	S/P	**1.1**	**4.30**	**86**	40.0	**0.052**
Grasberg (Indonesia)	O/P + U/G	**2,813**	**0.90**	**69**	(o)	**13.751**
Greens Creek (US)	U/G	**7.0**	**3.86**	**69**	70.3	**0.417**
Northparkes (Australia)						
▯ mine	U/G	**46**	**0.46**	**74**	80.0	**0.407**
▯ stockpiles (i)	S/P	**3.8**	**0.58**	**76**	80.0	**0.043**
Rio Tinto total						**20.834**

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Total ore reserves at end 2006		Average mill recovery %	Interest %	**Rio Tinto share**
		Tonnage	Grade			
		millions of tonnes	**%Fe**			**Marketable product millions of tonnes**
IRON ORE (d)						
Reserves at operating mines and mines under construction						
Channar (Australia)						
▯ Brockman Ore	O/P	**100**	**63.5**		60.0	**60**
Corumbá (Brazil)						
▯ mine	O/P	**213**	**67.2**		100.0	**213**
▯ stockpiles (i)	S/P	**1**	**66.7**		100.0	**1**
Eastern Range (Australia)						
▯ Brockman Ore	O/P	**91**	**62.9**		54.0	**49**
Hope Downs (Australia) (t)						
▯ Marra Mamba Ore	O/P	**344**	**61.6**		50.0	**172**
Hamersley (Australia)						
▯ Brockman 2 (Brockman Ore)	O/P	**30**	**62.6**		100.0	**30**
▯ Brockman 4 (Brockman Ore)	O/P	**449**	**62.2**		100.0	**449**
▯ Marandoo (Marra Mamba Ore)	O/P	**67**	**61.6**		100.0	**67**
▯ Mt Tom Price (Brockman Ore)						
▯ mine	O/P	**109**	**64.6**		100.0	**109**
▯ stockpiles (i)	S/P	**17**	**64.5**		100.0	**17**
▯ Mt Tom Price (Marra Mamba Ore)(u)	O/P	**35**	**61.2**		100.0	**35**
▯ Paraburdoo (Brockman Ore)	O/P	**12**	**63.6**		100.0	**12**
▯ Paraburdoo (Marra Mamba Ore)	O/P	**0.5**	**63.2**		100.0	**0.5**
▯ Nammuldi (Marra Mamba Ore)	O/P	**31**	**61.4**		100.0	**31**
▯ Yandicoogina (Pisolite Ore HG)						
▯ mine	O/P	**327**	**58.7**		100.0	**327**
▯ stockpiles (i)	S/P	**1.5**	**58.1**		100.0	**1**
▯ Yandicoogina (Process Product)						
▯ mine	O/P	**109**	**58.4**		100.0	**109**
Iron Ore Company of Canada (Canada)	O/P	**416**	**65.0**		58.7	**244**
Robe River (Australia)						
▯ Pannawonica (Pisolite Ore)						
▯ mine	O/P	**327**	**57.2**		53.0	**174**
▯ stockpiles (i)	S/P	**17**	**56.9**		53.0	**9**
▯ West Angelas (Marra Mamba Ore)						
▯ mine	O/P	**403**	**61.9**		53.0	**213**
▯ stockpiles (i)	S/P	**6**	**59.3**		53.0	**3**
Rio Tinto total						**2,326**

	millions of tonnes	**%Pb**	**Recoverable metal millions of tonnes**
LEAD			
Reserves at operating mine			

Greens Creek (US)	U/G	**7.0**	**3.98**	**67**	70.3	**0.131**

MOLYBDENUM		**millions of tonnes**	**%Mo**			**Recoverable metal millions of tonnes**
Reserves at operating mine						
Bingham Canyon (US)						
▯ mine	O/P	**604**	**0.047**	**61**	100.0	**0.175**
▯ stockpiles (i)	S/P	**37**	**0.032**	**61**	100.0	**0.007**
Rio Tinto total						**0.183**

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Total ore reserves at end 2006		Average mill recovery %	Interest %	**Rio Tinto share**
		Tonnage	Grade			
		millions of tonnes	**grammes per tonne**			**Recoverable metal millions of ounces**
SILVER						
Reserves at operating mines						
Bingham Canyon (US)						
▯ mine	O/P	**604**	**2.52**	**77**	100.0	**37.699**
▯ stockpiles (i)	S/P	**37**	**1.69**	**77**	100.0	**1.558**
Grasberg (Indonesia)	O/P + U/G	**2,813**	**4.16**	**64**	(o)	**73.722**
Greens Creek (US)	U/G	**7.0**	**494.46**	**72**	70.3	**56.206**
Rio Tinto total						**169.185**

		millions of tonnes				**Marketable product millions of tonnes**
TALC (e)						
Reserves at operating mines						
Rio Tinto Minerals ▯ talc (v) Europe/N America/Australia)	O/P + U/G	**28.8**			100.0	**28.8**

		millions of tonnes				**Marketable product millions of tonnes**
TITANIUM DIOXIDE FEEDSTOCK (e)						
Reserves at operating mines						
QIT (Canada) (w)	O/P	**52.7**			100.0	**52.7**
QMM (Madagascar)	D/O	**12.4**			80.0	**9.9**
RBM (South Africa)	D/O	**24.9**			50.0	**12.5**
Rio Tinto total						**75.0**

		millions of tonnes	**%U_3O_8**			**Recoverable metal millions of tonnes**
URANIUM						
Reserves at operating mines						
Energy Resources of Australia (Australia)						
▯ Ranger #3 mine	O/P	**9.6**	**0.241**	**89**	68.4	**0.0141**
▯ Ranger #3 stockpiles (i) (x)	S/P	**25.9**	**0.107**	**86**	68.4	**0.0163**

Rössing (Namibia)						
▯ mine	O/P	**17.7**	**0.038**	**85**	68.6	**0.0039**
▯ stockpiles (i)	S/P	**2.3**	**0.015**	**85**	68.6	**0.0002**
Rio Tinto total						**0.0345**

ZINC		**millions of tonnes**	**%Zn**			**Recoverable metal millions of tonnes**
Reserves at operating mine						
Greens Creek (US)	U/G	**7.0**	**10.39**	**77**	70.3	**0.390**

See notes on pages 32 to 33

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Proven ore reserves at end 2006			Probable ore reserves at end 2006		
		Tonnage	Grade	Drill hole spacing (c)	Tonnage	Grade	Drill hole spacing (c)
BAUXITE (d)		**millions of tonnes**	**%Al_2O_3**		**millions of tonnes**	**%Al_2O_3**	
Reserves at operating mine							
Weipa (Australia)	O/P	119	53.8	76m x 76m	1,074	53.7	400m x 800m (or better)
BORATES (e)		**millions of tonnes**			**millions of tonnes**		
Reserves at operating mine							
Rio Tinto Minerals - Boron (US) (j)							
▯ mine	O/P	14.8		61m x 61m	5.0		61m x 61m
▯ stockpiles (i)	S/P	0.1			2.0		

		Recoverable reserves total	% Yield to give marketable reserves	Marketable Reserves			
				Proven	Drill hole spacing (c)	Probable	Drill hole spacing (c)
COAL (f)		**millions of tonnes**		**millions of tonnes**		**millions of tonnes**	
Reserves at operating mines							
Rio Tinto Energy America (k)							
Antelope (US)	O/C	359	100	359	350m		
Colowyo (US) (l)	O/C	14	100	14	250m	0.1	365m
Cordero Rojo (US)	O/C	285	100	281	250m	4.4	375m
Decker (US)	O/C	18	100	18	250m		
Jacobs Ranch (US)	O/C	418	100	413	300m	4.3	300m
Spring Creek (US)	O/C	199	100	199	250m		
Rio Tinto Coal Australia							
Bengalla (Australia)	O/C	193	77	92	350m	58	500m
Blair Athol (Australia)	O/C	45	92	42	150m		
Hail Creek (Australia)	O/C	267	67	105	300m	73	400m
	O/C	453	68	245	300m	63	500m

Hunter Valley Operations (Australia)							
Kestrel (Australia)	U/G	140	80	49	500m	63	1,000m
Mount Thorley Operations (Australia)	O/C	35	66	20	125m	2.5	500m
Warkworth (Australia)	O/C	392	64	151	450m	100	1,000m
Undeveloped reserves							
(m)							
Rio Tinto Coal Australia							
Clermont (Australia)	O/C	197	96	185	220m	4	150m to 300m
Mount Pleasant (Australia)	O/C	459	76			350	125m to 500m

See notes on pages 32 to 33

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Proven ore reserves at end 2006			Probable ore reserves at end 2006		
		Tonnage	Grade	Drill hole spacing (c)	Tonnage	Grade	Drill hole spacing (c)
COPPER		**millions of tonnes**	**%Cu**		**millions of tonnes**	**%Cu**	
Reserves at operating mines							
Bingham Canyon (US)							
▯ mine	O/P	325	0.59	90m	279	0.48	110m
▯ stockpiles (i)	S/P	12	0.35		25	0.32	
Escondida (Chile) (n)							
▯ sulphide mine	O/P	516	1.17	60m x 60m	844	1.00	100m x 100m
▯ sulphide leach mine	O/P	421	0.51	60m x 60m	992	0.51	105m x 105m
▯ oxide mine	O/P	6	0.74	45m x 45m	15	0.74	50m x 50m
▯ sulphide stockpiles (i)	S/P	17	1.23				
▯ sulphide leach stockpiles (i)	S/P	131	0.49				
▯ oxide stockpiles (i)	S/P	57	0.67				
Escondida Norte (Chile) (n)							
▯ sulphide mine	O/P	138	1.53	60m x 60m	318	1.34	100m x 100m
▯ sulphide leach mine	O/P	57	0.53	60m x 60m	548	0.61	105m x 105m
▯ oxide mine	O/P	2.8	1.97	45m x 45m	19	1.49	50m x 50m
▯ sulphide stockpiles (i)	S/P	0.1	4.07				
▯ sulphide leach stockpiles (i)	S/P	1.5	0.52				
▯ oxide stockpiles (i)	S/P	3.3	0.96				
Grasberg (Indonesia)	O/P + U/G	809	1.08	13m to 40m	2,004	1.02	42m to 100m
Northparkes (Australia)							
▯ mine	U/G				46	1.06	40 x 40 x 80m
▯ stockpiles (i)	S/P	3.8	0.67				
Palabora (South Africa) (p)							
▯ mine	U/G	118	0.64	76m			

DIAMONDS (d)		**millions of tonnes**	**carats per tonne**		**millions of tonnes**	**carats per tonne**	
Reserves at operating mines							
Argyle (Australia)							
▯ AK1 pipe mine (q)	O/P + U/G	27	1.4	50m x 50m	75.0	2.4	50m x 50m

□ AK1 pipe stockpiles (i)	S/P	0.9	2.8		3.0	0.8	
Diavik (Canada) (r)	O/P + U/G	12	3.4	27m to 30m	13	3.2	30m to 34m
Murowa (Zimbabwe)	O/P						
□ mine	O/P				22	0.7	25m
□ stockpiles (i)	S/P				0.1	1.2	

GOLD		**millions of tonnes**	**grammes per tonne**		**millions of tonnes**	**grammes per tonne**	
Reserves at operating mines							
Bingham Canyon (US)							
□ mine	O/P	325	0.34	90m	279	0.28	110m
□ stockpiles (i)	S/P	12	0.20		25	0.20	
Cortez/Pipeline (US) (s)							
□ mine	O/P	52	2.05	27m to 30m	73	1.67	48m
□ stockpiles (i)	S/P	1.1	4.30				
Grasberg (Indonesia)	O/P + U/G	809	1.03	13m to 40m	2,004	0.85	42m to 100m
Greens Creek (US)	U/G				7.0	3.86	30m
Northparkes (Australia)							
□ mine	O/P				46	0.46	40 x 40 x 80m
□ stockpiles (i)	S/P	3.8	0.58				

See notes on pages 32 to 33

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Proven ore reserves at end 2006			Probable ore reserves at end 2006		
		Tonnage	Grade	Drill hole spacing (c)	Tonnage	Grade	Drill hole spacing (c)
IRON ORE (d)		**millions of tonnes**	**%Fe**		**millions of tonnes**	**%Fe**	
Reserves at operating mines and mines under construction							
Channar (Australia)							
▯ Brockman Ore	O/P	87	63.5	60m x 60m	13	63.6	max 120m
Corumbá (Brazil)							
▯ mine	O/P	108	67.2	100m x 100m	106	67.2	200m x 400m
▯ stockpiles (i)	S/P	1	66.7				
Eastern Range (Australia)							
▯ Brockman Ore	O/P	66	63.0	60m x 60m	25	62.8	max 120m
Hope Downs (Australia) (t)							
▯ Marra Mamba Ore	O/P	66	61.3	100m x 50m	279	61.7	200m x 50m
Hamersley (Australia)							
▯ Brockman 2 (Brockman Ore)	O/P	19	62.6	50m x 50m	11.0	62.6	max 100m
▯ Brockman 4 (Brockman Ore)	O/P	115	62.6	50m x 50m	334	62.1	200m x 100m
▯ Marandoo (Marra Mamba Ore)	O/P	65	61.7	75m x 75m	2.0	60.7	max 150m
▯ Mt Tom Price (Brockman Ore)							
▯ mine	O/P	72	64.4	30m x 30m	37	64.9	60m x 30m
▯ stockpiles (i)	S/P				17	64.5	
▯ Mt Tom Price (Marra Mamba Ore)(u)	O/P				35	61.2	60m x 30m
▯ Paraburdoo (Brockman Ore)	O/P	8	63.6	30m x 30m	4.1	63.6	60m x 30m
▯ Paraburdoo (Marra Mamba Ore)	O/P				0.5	63.2	60m x 60m
▯ Nammuldi (Marra Mamba Ore)	O/P	3.9	62.0	60m x 60m	27	61.3	120m x 120m
▯ Yandicoogina (Pisolite Ore HG)							
▯ mine	O/P	327	58.7	50m x 50m			
▯ stockpiles (i)	S/P				1.5	58.1	
▯ Yandicoogina (Process Product)							

▯ mine	O/P	109	58.4	50m x 50m			
Iron Ore Company of Canada							
(Canada)	O/P	345	65.0	122m x 61m	70	65.0	122m x 122m
Robe River (Australia)							
▯ Pannawonica (Pisolite Ore)							
▯ mine	O/P	289	57.3	max 70m x 70m	38	57.0	max 100m x 100m
▯ stockpiles (i)	S/P				17	56.9	
▯ West Angelas (Marra Mamba Ore)							
▯ mine	O/P	178	62.2	25m x 25m	225	61.6	max 200m x 50m
▯ stockpiles (i)	S/P	0.7	59.7		5	59.3	

LEAD		**millions of tonnes**	**%Pb**		**millions of tonnes**	**%Pb**	
Reserves at operating mine							
Greens Creek (US)	U/G				7.0	3.98	30m

MOLYBDENUM		**millions of tonnes**	**%Mo**		**millions of tonnes**	**%Mo**	
Reserves at operating mine							
Bingham Canyon (US)							
▯ mine	O/P	325	0.047	90m	279	0.047	110m
▯ stockpiles (i)	S/P	12.1	0.028		25	0.034	

See notes on pages 32 to 33

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ORE RESERVES (under Industry Guide 7) continued

	Type of mine (b)	Proven ore reserves at end 2006			Probable ore reserves at end 2006		
		Tonnage	Grade	Drill hole spacing (c)	Tonnage	Grade	Drill hole spacing (c)
SILVER		**millions of tonnes**	**grammes per tonne**		**millions of tonnes**	**grammes per tonne**	
Reserves at operating mines							
Bingham Canyon (US)							
□ mine	O/P	325	2.74	90m	279	2.25	110m
□ stockpiles (i)	S/P	12.1	1.75		25	1.66	
Grasberg (Indonesia)	O/P + U/G	809	4.23	13m to 40m	2,004	4.13	42m to 100m
Greens Creek (US)	U/G				7.0	494.46	30m
TALC (e)		**millions of tonnes**			**millions of tonnes**		
Reserves at operating mines							
Rio Tinto Minerals □ talc (v)							
(Europe/North America/Australia)	O/P + U/G	21.6		10m to 60m	7.2		15m to 100m
TITANIUM DIOXIDE FEEDSTOCK (e)		**millions of tonnes**			**millions of tonnes**		
Reserves at operating mines							
QIT (Canada) (w)	O/P	29.2		<60m x 60m	23.5		>60m x 60m
QMM (Madagascar)	D/O	12.0		200m x 100m	0.4		400m x 200m
RBM (South Africa)	D/O	6.3		50m x 50m	18.6		800m x 100m
URANIUM		**millions of tonnes**	**%U_3O_8**		**millions of tonnes**	**%U_3O_8**	
Reserves at operating mines							
Energy Resources of Australia (Australia)							
□ Ranger #3 mine	O/P	4.9	0.24	25m	4.8	0.24	50m
□ Ranger #3 stockpiles (i) (x)	S/P	25.9	0.11				
Rössing (Namibia)							
□ mine	O/P	0.8	0.036	20m	16.9	0.038	60m

stockpiles (i)	S/P	2.3	0.015

ZINC		millions of tonnes	%Zn	millions of tonnes	%Zn	
Reserves at operating mine						
Greens Creek (US)	U/G			7.0	10.39	30m

See notes on pages 32 to 33

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ORE RESERVES (under Industry Guide 7) continued

Notes

(a) Commodity prices (based on a three year average historical price to 30 June 2006) used to test whether the reported reserve estimates could be economically extracted, include the following benchmark prices:

Ore reserves	Unit	US$
ALUMINIUM		
Weipa (Australia)	pound	0.85
COPPER		
Bingham Canyon (US)	pound	1.59
Escondida (Chile)*	pound	1.59
Escondida Norte (Chile)*	pound	1.59
Grasberg (Indonesia)*	pound	1.59
Northparkes (Australia)	pound	1.59
Palabora (South Africa)	pound	1.59
GOLD		
Bingham Canyon (US)	ounce	446
Cortez / Pipeline (US)*	ounce	446
Grasberg (Indonesia)*	ounce	446
Greens Creek (US)	ounce	446
Northparkes (Australia)	ounce	446
IRON ORE		
Australian benchmark (fines)	dmtu**	0.46
Atlantic benchmark (fines)	dmtu**	0.49
LEAD		
Greens Creek (US)	pound	0.41
MOLYBDENUM		
Bingham Canyon (US)	pound	20.5
SILVER		
Bingham Canyon (US)	ounce	7.34
Grasberg (Indonesia)*	ounce	7.34
Greens Creek (US)	ounce	7.34
ZINC		
Greens Creek (US)	pound	0.64

* = non managed operations
** = dry metric tonne unit

Prices for all other commodities are determined by individual contract negotiation. The reported reserves for these commodities have been tested to confirm that they could be economically extracted using a combination of existing contract prices until expiry and thereafter three year historical prices.

(b) Type of mine: O/P = open pit, O/C = open cut, U/G = underground, D/O = dredging operation, S/P = stockpile.

(c) Drill hole spacings are either average distances, a specified grid distance (a regular pattern of drill holes - the distance between the drill holes along the two axes of the grid will be aligned to test the size, shape and continuity of the mineral deposit; as such there may be different distances between the drill holes along the two axes of a grid) or the maximum drill hole spacing that is sufficient to determine the reserve category for a particular deposit. As the continuity of mineralisation varies from deposit to deposit, the drill hole spacing required to categorise a reserve varies between and within deposit types.

(d) Reserves of iron ore, bauxite (as alumina) and diamonds are shown as recoverable reserves of saleable product after accounting for all mining and processing losses. Mill recoveries are therefore not shown.

(e) Reserves of industrial minerals are expressed in terms of marketable product, i.e. after all mining and processing losses. In the case of borates, the saleable product is B2O3.

(f)

Coal reserves are shown as both recoverable and marketable. The yield factors shown reflect the impact of further processing, where necessary, to provide marketable coal. All reserves at operating mines are assigned, all undeveloped reserves are unassigned. By "assigned" and "unassigned," we mean the following: assigned reserves means coal which has been committed by the coal company to operating mine shafts, mining equipment, and plant facilities, and all coal which has been leased by the company to others; unassigned reserves represent coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin in the property.

(g) Coal type: SC = steam/thermal coal; MC = metallurgical/coking coal.

(h) Analyses of coal from the US were undertaken according to "American Standard Testing Methods" (ASTM) on an "As Received" moisture basis whereas the coals from Australia have been analysed on an "Air Dried" moisture basis according to Australian Standards (AS). MJ/kg = megajoules per kilogramme. 1 MJ/kg = 430.2 Btu/lb.

(i) Stockpile components of reserves are shown for all operations.

(j) Rio Tinto Minerals - Boron was previously known as Boron.

(k) Rio Tinto Energy America was previously known as Kennecott Energy.

(l) Rio Tinto Energy America has a partnership interest in the Colowyo mine, but, as it is responsible under a management agreement for the operation of the mine, all of Colowyo's reserves are included in Rio Tinto's share shown above.

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ORE RESERVES (under Industry Guide 7) continued

(m) The term 'undeveloped reserves' is used here to describe material that is economically viable on the basis of technical and economic studies but for which construction and commissioning have yet to commence.
(n) The increase in reserves at Escondida and Escondida Norte results from updated models following increased drilling and the application of new economic parameters, which transferred mineralised material to reserves. Oxide material has been transferred to sulphide leach following the start up of new processing facilities.
(o) Under the terms of a joint venture agreement between Rio Tinto and Freeport-McMoRan Copper & Gold (FCX), Rio Tinto is entitled to a direct 40 per cent share in reserves discovered at Grasberg after 31 December 1994 and it is this entitlement that is shown.
(p) Reserves at Palabora have decreased following detailed remodelling of both grade and block cave models, and the effect of diluting material from the open pit. The conversion of debentures into ordinary shares continued during 2006 with Rio Tinto participating, ending the year with a 57.7 per cent interest.
(q) The successful completion of feasibility studies and change in economic parameters has increased reserves at Argyle.
(r) Production depletion and refinement of mine design at Diavik, that reduced dilution, results in the reduced reserve.
(s) Portions of the Pipeline and Crossroads extension reserves were reclassified as mineralised material following technical and economic review.
(t) Following the acquisition of a 50 per cent interest in the Hope Downs iron ore project, reserves are presented here for the first time.
(u) Mt Tom Price reserves have increased following the upgrading of mineralised material and approved mine design extensions into a new area.
(v) Following a reassessment of economic and design criteria a proportion of reserves were reclassified as mineralised material at several of the talc operations. Rio Tinto Minerals - talc was formerly known as the Luzenac Group.
(w) The reserve model was updated on receipt of new data, which including depletion, resulted in a reduction of reserves at QIT.
(x) Improvements in processing and economic parameters enabled lower grade stockpile material to be added to the reserves at Ranger #3.

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LOCATION OF GROUP OPERATIONS as at June 2007 (wholly owned unless stated otherwise)

ALUMINIUM

Operating sites

1 Anglesey Aluminium (51%)
2 Bell Bay
3 Boyne Island (59%)
3 Gladstone Power Station (42%)
3 Queensland Alumina (39%)
4 Tiwai Point (79%)
5 Weipa
3 Yarwun (formerly Comalco Alumina Refinery)

BORATES

Operating sites

6 Boron
7 Coudekerque Plant
8 Tincalayu
9 Wilmington Plant

COAL

Operating sites

10 Antelope
11 Bengalla (30%)
12 Blair Athol (71%)
13 Colowyo (20%)
10 Cordero Rojo
14 Decker (50%)
12 Hail Creek (82%)
15 Hunter Valley Operations (76%)
10 Jacobs Ranch
16 Kestrel (80%)
15 Mt Thorley Operations (61%)
14 Spring Creek
17 Tarong
15 Warkworth (42%)

Projects

12 Clermont (50%)
11 Mt Pleasant (76%)

COPPER AND GOLD

Operating sites

18 Bougainville (not operating) (54%)
19 Cortez/Pipeline (40%)
20 Escondida (30%)
21 Grasberg joint venture (40%)
22 Kennecott Utah Copper
23 Northparkes (80%)
24 Palabora (58%)
25 Rawhide (51%)

Projects

26 La Granja
27 Oyu Tolgoi (10%)
28 Pebble (20%)
29 Resolution (55%)

DIAMONDS

Operating sites

30 Argyle
31 Diavik (60%)
32 Murowa (78%)

IRON ORE

Operating sites

33 Corumbá
34 Hamersley Iron mines:
Brockman
Marandoo
Mt Tom Price
Nammuldi
Paraburdoo
Yandicoogina
Channar (60%)
Eastern Range (54%)
35 HIsmelt ®(60%)
34 Robe River mines: (53%)
West Angelas
Pannawonica
35 Iron Ore Company of
Canada (59%)

Projects

34 Hope Downs (50%)
37 IOC Pellet Plant (59%)
38 Orissa (51%)
39 Simandou (95%)

NICKEL

Projects

40 Eagle

POTASH

Projects

41 Rio Colorado Potash

SALT

Operating sites

42 Dampier (65%)
43 Lake MacLeod (65%)
42 Port Hedland (65%)

TALC

Operating sites

(only major sites are shown)

44 Ludlow
45 Talc de Luzenac
46 Yellowstone
47 Three Springs

TITANIUM DIOXIDE

FEEDSTOCK

Operating sites

48 QIT-Fer et Titane Lac Allard
49 QIT-Fer et Titane Sorel
Plant

50 Richards Bay Minerals (50%)

Projects

51 QIT Madagascar Minerals (80%)

URANIUM

Operating sites

52 ERA (68%)

53 Rössing (69%)

Projects

54 Kintyre

55 Sweetwater

ZINC, LEAD, SILVER

Operating sites

56 Greens Creek (70%)

- Mines and mining projects
- Smelters, refineries and processing plants remote from mine

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Item 4A. Unresolved Staff Comments

As far as Rio Tinto is aware there are no unresolved written comments from the SEC staff regarding its periodic reports under the Exchange Act received more than 180 days before 31 December 2006.

Item 5. Operating and Financial Review and Prospects

This Item contains forward looking statements and attention is drawn to the Cautionary statement on page 6.
This Item includes a discussion of the main factors affecting the Group's 'Profit for the year', as measured in accordance with International Financial Reporting Standards as adopted by the European Union ('EU IFRS'). In monitoring its financial performance, the Group also focuses on that part of the Profit for the year attributable to equity shareholders of Rio Tinto, which is referred to as 'Net earnings', and on an additional measure called 'Underlying earnings'. The latter measure, which is also based on the amounts attributable to Rio Tinto shareholders, is reported to provide greater understanding of the underlying business performance of Rio Tinto operations. This measure is used by management to track the performance of the Group on a monthly basis. The earnings of the Group's product groups as reviewed by management exclude amounts that are outside the scope of underlying earnings. Underlying earnings is defined and reconciled with Net earnings in note 2 to the 2006 financial statements.

Significant movements in the items excluded from Underlying earnings are discussed on pages 40 to 41.

In this report, the sales revenue of the parent companies and their subsidiaries is referred to as 'Consolidated sales revenue'. Rio Tinto also reports a sales revenue measure that includes its share of jointly controlled entities and associates, which is referred to as 'Gross sales revenue'. This latter measure is considered informative because a significant part of the Group's business is conducted through operations that are subject to equity accounting.

This Item is comprised of the following:

- Chairman's message providing a high level review of the Group
- Interview with the chief executive providing a high level review of the Group's operations
- Group financial performance
- Operating reviews for each of the principal product groups and global support groups
- Financial review of the Group

As a result of adopting IAS 32, IAS 39 and IFRS 5 on 1 January 2005, the Group changed its method of accounting for financial instruments and non-current assets held for sale. In line with the relevant transitional provisions, the prior period comparatives have not been re-stated. See Note 1 to the 2006 financial statements for further discussion.

CHAIRMAN'S MESSAGE

We continued to experience strong global demand and high prices across our product groups in 2006 and are pleased to report a third successive year of record earnings. This performance reflects the underlying quality of the Rio Tinto portfolio, which has proved robust across the economic cycle.

I have warned in previous messages about the risk of complacency that can flow from a period of strong markets and sustained success. We remain alert to this and recognize the long term cyclical nature of our industry. In response we continue to focus on rigorous investment discipline, operational excellence and pursuing all opportunities to enhance the underlying performance of our business.

Results and dividends

The Group's underlying earnings in 2006 were US$7,338 million, US$2,383 million or 48 per cent above 2005. Net earnings were US$7,438 million, compared with US$5,215 million in 2005. Cash flow from operations increased 36 per cent to [US$10,923]* million.

The final dividend declared for 2006 of 64 US cents per share brings the total for 2006 to 104 US cents, an

increase of 30 per cent. We have a long standing policy of progressive dividend delivery and maintaining it remains a priority. In addition, our strong operational cash flows have enabled us to return US$2.4 billion to shareholders through the buyback of shares and the payment of US$1.5 billion special dividend. We have recently announced, subject to market conditions, our intention to return a further US$3 billion to be completed by the end of 2007, while still retaining the financial flexibility to take up growth opportunities as they arise.

Our main priority for the use of cash generated continues to be profitable investment in the growth of the business with particular emphasis on our portfolio of economically robust projects. Our capital investment grew from US$2.5 billion in 2005 to US$3.9 billion in 2006. Our pipeline of project opportunities will see this grow to around US$5 billion in 2007.

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Strategy

Our strategy remains to focus on large, long life, low cost ore bodies capable of delivering superior returns across the economic cycle. Creating value for shareholders is our primary objective and will remain so. We are fortunate to have a geographical portfolio weighted towards large, mature and growing economies. However, we recognise that pursuit of future value growth will see us operating in a wider range of countries than in the past. Recent projects and investments in Russia, Madagascar, Peru and Mongolia are evidence of this.

We are also focused on driving productivity and performance improvements across all our primary business processes, thereby adding to the resilience of our portfolios in more challenging markets. We made significant progress towards that objective in 2006.

Sustainable development

Rio Tinto is in a long term, capital intensive business and our investments typically have life spans of 30 years or more and are often in remote locations. Without economic and social stability we cannot deliver economic returns to our host governments, local communities and our shareholders. We therefore remain committed to the principles of sustainable development, which is fully reflected in all aspects of our business. It facilitates access to new opportunities, improves business performance and inspires our own people, who fully share this commitment.

As we move into new geographical areas, meeting economic, social and environmental challenges simultaneously will be an increasingly critical feature of our business. I am pleased that our way of doing business has received positive recognition and support from our various stakeholders in these environments.

New chief executive

We have announced that Tom Albanese will succeed Leigh Clifford as chief executive on 1 May 2007. Leigh has made an outstanding contribution to Rio Tinto for almost 37 years. His seven years as chief executive have seen significant growth in the profitability and value of the business and major enhancements in our operational performance. We thank him for all he has done for Rio Tinto and wish him well for the future.

Tom brings a broad based experience of the mining industry developed in a sequence of challenging roles in Rio Tinto. He has been a key player in a number of important initiatives over recent years and in shaping our strategic direction. We have plans in place for a smooth handover from Leigh to Tom and the board is confident that, under his leadership, Rio Tinto will continue to deliver profitable growth and increased value for shareholders.

Board developments

Michael Fitzpatrick joined the board in June 2006 after a successful period in investment fund management. He brings a long experience of entrepreneurial activity to the board and is a valuable addition to our Australian representation. We are fortunate to have an experienced and diverse board which provides strong support and constructive challenge to our executive team.

Forward outlook

The global economy remains resilient in the face of a range of political and economic risks. We expect a continuation of positive economic growth in 2007 in most of the major economies. China□s strong, growing demand for metals and minerals, which has been a key driver of market strength, seems set to continue.

On the supply side, a number of constraints, ranging from shortages of key consumables, like truck tyres and explosives, to the tight supply of skilled technical managers and tradesmen, have limited the growth of new production capacity. Stocks of most products have remained low, resulting in tight markets. This has reinforced the strength of the current cycle and we expect prices in 2007 to continue at levels significantly above the long term trend.

Our people

Despite the benefit of strong markets, 2006 was very challenging in operational terms. We have faced daily pressures in meeting the requirements of our customers and developing new projects within tight timetables and budgets. Our record results would not have been possible without the commitment, dedication and hard work of our global workforce. Once again, on behalf of the board and you, our shareholders, I thank them for all they

have achieved in an excellent year for Rio Tinto.

Paul Skinner Chairman
23 February 2007

* Adjusted following a reclassification post publication in the 2006 Annual report and financial statements.

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INTERVIEW WITH THE CHIEF EXECUTIVE

How would you describe the past year?
Underlying earnings in 2006 were a record US$7.3 billion. Not only were prices for metals and minerals higher, but we were able to make the most of the situation with increased production at many of our operations maximising delivery into strong markets. With our strong balance sheet we are in a position to invest heavily in growth and to return capital to shareholders. Through our business improvement programme, *Improving performance together* (IPT), we are seeing a significant change in the way business units cooperate and share best practice. IPT resulted in substantial additional cash flow in 2006 and should deliver very large value enhancements in the future. Health, safety and environment indicators generally showed steady improvement, but unfortunately the year was marred by three fatalities at Rio Tinto managed operations.

Why are markets this good?
Economic growth and development around the world, particularly in China and India, mean an increased need for minerals. The mining industry is struggling to keep pace with demand. There is normally a quicker supply response when demand rises. However, because of previous under investment in exploration, the next generation of large world class deposits is only now being identified and evaluated. These deposits are often in remote locations, present new technical challenges and will take some years to come into production. The delivery times for major items of equipment have also significantly increased. While we believe a new higher base level of prices has developed for most commodities, this is mirrored by higher operating and development costs.

Rio Tinto s volume growth has typically been six to seven per cent a year where to now?
We concentrate on what we do best, which is mining the first stage of the supply chain. Rio Tinto operates or shares in some of the largest deposits in the world. That is partly why we are enjoying financial success at a time of strong prices, although all our product groups generate strong cash flow at all points of the cycle. Large long life deposits also give us the opportunity to increase production in line with demand, a great advantage in the current environment. Ours is a simple strategy and it works. While most of our existing assets are in OECD countries, we are responding to new opportunities in the developing world Peru, Guinea and Indonesia to name a few and in countries that are only now opening up to mining investment, like Madagascar, Russia and Mongolia.

We are always alert to merger and acquisition opportunities, but growth is often ab out choosing between buying and building. When you build a new project you should know what you re getting if you execute the project well, but when you buy you may find not all the assets are jewels. The key is to make value creating decisions not just increase volume. We are willing to make the big bets, as we have in iron ore and copper, but the key factor in the execution of our strategy is discipline: discipline in analysis and discipline in execution.

How are you responding to cost pressures?
We work very hard to manage costs related to operational inputs, supplies, wages, energy and higher material costs through the excellent work of our global procurement team and our strong supplier relationships. However, the prices of many key inputs, including labour, have risen sharply in recent times. Of course our exploration and project evaluation costs feeding our development pipeline are in the nature of investments in the future.

Can you say a little more on the *Improving performance together* initiative?
We need to permanently change the way we run our individual operations, replicating best performance across everything we do project analysis, project development, mine planning, mining, processing and marketing. We are a global Group and we need to work across functions and international borders to solve problems together instead of businesses going it alone. By creating a standard operating model with common systems, standards and metrics we will ensure that we capture the best ways of operating and reproducing these across the Group. The substantial additional cash flow we achieved in 2006 is the start to adding considerable value to the Group over time.

You spent about US$4 billion in new capital in 2006. How are the major projects going?
Overall, our new projects are coming along well. Our iron ore expansion projects in Western Australia remain our biggest current capital investment. The challenge of operating and expanding ten mines, three ports and more

than 1,600km of rail line in the Pilbara at a time of buoyant market conditions should not be underestimated. With total expenditure of US$3 billion, by the end of 2007 our port and rail infrastructure will be capable of handling up to 195 million tonnes of iron ore annually. The recently announced expansion of Cape Lambert port, at a cost of US$860 million, will further expand capacity to 220 million tonnes. The Yandicoogina mine will expand to 52 million tonnes a year in the same period and the Hope Downs project will start production in 2008 with output of 22 million tonnes, rising to 30 million tonnes in stage two. From negotiation of the agreement on Hope Downs to first deliveries will be only three years.

Our ilmenite project in Madagascar is on schedule, and construction of basic infrastructure by local contractors is under way. The port contract has been awarded, enabling us to finalise a definitive cost estimate of US$850 million for the total project including the building of additional processing capacity in Canada. First production is scheduled for 2008, when we believe there will be growing demand for the high quality ilmenite that Madagascar will produce for 40 years.

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Development continues at the Argyle Diamond mine in Western Australia, Diavik in Canada and Cortez in Nevada, as does the extension of the life of the Rössing Uranium mine in Namibia. Earlier this year we announced the development of the Clermont thermal coal mine in Queensland, and we completed significant investment to expand capacity at the Weipa bauxite mine in Queensland.

What about new opportunities?

We have acquired interests in three promising copper projects: La Granja in Peru, the Pebble project in Alaska and Oyu Tolgoi (Turquoise Hill) in Mongolia which, together with Resolution Copper in the US, give us an interest in four world class undeveloped copper mineral deposits. The investment in Mongolia represents a phased, risk managed entry into a potentially outstanding resource. La Granja has been given the go ahead for a US$95 million pre-feasibility study.

We are encouraged by the exploration potential on ERA leases in Australia and the expansion possibilities at Rössing Uranium in Namibia. These, together with the potential of Kintyre in Western Australia and Sweetwater in Wyoming, US, mean we are well placed to extend uranium reserves in the near future.

In addition we have an extensive global exploration programme, spending a total of US$345 million in 2006, and we continue to evaluate numerous development opportunities, often with others.

Much is being made of a skills shortage. What is your view?

Technical skills in mining, metallurgy and geological sciences are in short supply and there is strong competition for recent graduates, experienced engineers and artisans as well as supervisors. However, I believe we are better placed than most. Global graduate recruitment is a high priority and we are doing well in attracting good quality people. We are seen as an organisation that can provide exciting international experience, good training and lots of opportunity. We are also being more creative in retaining the skills and experience of staff in the later stages of their career. All that said , I think the mining industry as a whole needs to sell itself as an attractive employer more effectively. We need to consider changes to career structures to retain staff by offering greater flexibility and to identify adventurous people at the recruitment stage.

Any reflections on your handover to Tom Albanese?

I am fortunate to have worked for Rio Tinto for almost 37 years. It has given me a diverse and interesting career during which I have met and worked with many different people who form this great team that is Rio Tinto. In Tom Albanese we have a very able, experienced and committed individual to continue Rio Tinto s success. I would like to take this opportunity of wishing him well, and to thank all my colleagues around the world for the strong support they have given me in the many roles over my career.

Leigh Clifford Chief executive
23 February 2007

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GROUP FINANCIAL PERFORMANCE

Underlying earnings is the key financial performance indicator which management use internally to assess performance. It is presented here as an additional measure of earnings to provide greater understanding of the underlying business performance of the Group's operations. The categories of items excluded from net earnings to arrive at underlying earnings are explained in note 2 to the 2006 financial statements together with information on a minor change in the definition of underlying earnings.

Both net earnings and underlying earnings deal with amounts attributable to equity shareholders of Rio Tinto. However, EU IFRS requires that the profit for the period reported in the income statement should also include earnings attributable to outside shareholders in subsidiaries. The profit for the period is reconciled to net earnings and to underlying earnings as follows:

	2006 US$m	2005 US$m	2004 US$m
Profit for the year	**7,867**	5,498	3,244
Less: attributable to outside equity shareholders	**(429)**	(283)	53
Attributable to equity shareholders of Rio Tinto (net earnings)	**7,438**	5,215	3,297
Less: exclusions from underlying earnings	**(100)**	(260)	(1,025)
Underlying earnings attributable to shareholders of Rio Tinto	**7,338**	4,955	2,272

Amounts attributable to outside equity shareholders increased in 2006 largely because of improved results at Palabora and the reversal of impairment at IOC. Amounts attributable to outside equity shareholders increased in 2005 because of improved results at Robe River, IOC, Coal & Allied, Rio Tinto Iron & Titanium and Palabora. In addition, in 2004 outside equity shareholders' interests included a US$129 million charge for impairments.

Earnings contributions from Group businesses and business segments are based on underlying earnings. Amounts excluded from net earnings in arriving at underlying earnings are summarised in the following table and discussed further below.

	2006 US$m	2005 US$m	2004 US$m
Profit less losses on disposal of interests in businesses	**3**	311	1,175
Impairment reversals less charges	**44**	4	(321)
Adjustment to environmental remediation provision	**37**	84	—
Exchange gains/(losses) on external net debt and intragroup balances (including those relating to equity accounted units)	**(14)**	(99)	159
Gains/(losses) on currency and interest rate derivatives not qualifying for hedge accounting (including those relating to equity accounted units)	**30**	(40)	12
Total excluded in arriving at underlying earnings	**100**	260	1,025

Changes in underlying earnings 2004 - 2006	**US$m**
2004 Underlying earnings	2,272
Effect of changes in:	
Prices	2,374
Exchange rates	(123)
General inflation	(141)

Volumes	1,140
Costs	(598)
Tax and other	31
2005 Underlying earnings	4,955
Effect of changes in:	
Prices	3,068
Exchange rates	(35)
General inflation	(174)
Volumes	(135)
Costs	(741)
Tax and other	400
2006 Underlying earnings	7,338

2006 compared with 2005

Net earnings of US$7,438 million in 2006 were US$2,223 million above 2005, an increase of 43 per cent.

Underlying earnings of US$7,338 million were US$2,383 million above 2005, an increase of 48 per cent.

Underlying earnings per share, which increased by 52 per cent, also reflected the lower number of shares resulting from the share buyback programme. The principal factors explaining the changes in underlying earnings are shown in the table above.

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Changes in underlying earnings

The effect of price movements on all major commodities was to increase underlying earnings by US$3,068 million. Prices for the major products remained strong throughout the year and were considerably higher than those experienced in 2005: average copper prices were 84 per cent higher whilst average aluminium prices were 35 per cent higher. The strength of the global iron ore market was reflected in the 19 per cent increase in the benchmark price, mainly effective from 1 April 2006. The seaborne thermal coal market was also strong, although it weakened in the second half.

Molybdenum prices averaged US$25/lb throughout 2006, a decline of 20 per cent compared with the prior year.

The net effect of changes in average levels of exchange rates against the US dollar for those currencies influencing the Group's costs was to reduce underlying earnings relative to 2005 by US$35 million.

Lower sales volumes decreased underlying earnings by US$135 million compared with 2005. As anticipated, significantly reduced volumes from lower grades at Grasberg impacted earnings by US$355 million year on year. This more than offset higher volumes at other operations. The ramp up of new projects in iron ore (including the Yandicoogina and brownfields expansions), higher copper in concentrate volumes from improved grades and throughput at Northparkes, higher ore grades and the commencement of sulphide leach production at Escondida, along with higher molybdenum and gold production at Kennecott Utah Copper (KUC), were the main contributors. Record volumes of thermal coal sales at Rio Tinto Energy America and alumina at Yarwun (formerly Comalco Alumina Refinery), also contributed to higher volumes. Lower sales volumes were recorded at Argyle with a build up of diamond inventories due to softer market conditions, at Kennecott Minerals from lower grades at Cortez, and at Hail Creek from lower coking coal volumes in response to lower customer demand.

Excluding the effects of general inflation, higher costs reduced underlying earnings by US$741 million, of which US$77 million was the result of higher energy costs. Ongoing acute shortages in the mining industry, in particular in the Pilbara, have continued to put pressure on costs. Costs at KUC were affected by an extended, scheduled smelter maintenance shutdown whilst Escondida experienced higher wages, following the strike in August. Significant shipping congestion at the port of Newcastle affected coal sales in the second half of the year with a resulting impact on costs at Rio Tinto Coal Australia, through higher demurrage and a higher unit cost of sale.

The effective tax rate on underlying earnings, excluding equity accounted units, was 24.2 per cent compared with 29.2 per cent in 2005, following the recognition of US$335 million of US Alternative Minimum Tax (AMT) credits now expected to be utilised in future years. This reflected improved projections of long term taxable earnings from our US operations. Additionally, the high levels of profit generated by the Group's US operations in 2006 resulted in the realisation of US$140 million of previously unrecognised deferred tax assets in the year. Deferred tax provisions decreased by US$46 million as a result of a reduction in Canadian tax rates. These favourable tax variances are included within the favourable variance of US$400 million for 'Tax and other items'.

Exclusions in arriving at underlying earnings

In 2006 a US$3 million gain was realised from disposals of interests in non core businesses, compared with gains from disposals of US$311 million in 2005. In 2005, the gains related mainly to the sale of Rio Tinto's interests in the Labrador Iron Ore Royalty Income Fund and in Lihir Gold.

Net earnings in 2006 included net impairment reversals totalling US$44 million. Impairments were reversed at KUC and IOC which more than offset impairment charges at Argyle and Tarong Coal. The valuation of the Argyle underground project is being kept under review, given the continuing pressure on mine development costs resulting from acute shortages in the mining industry and more challenging mining conditions than expected. In addition, net earnings in 2006 include a reduction of US$37 million (2005: US$84 million) in an environmental remediation provision at KUC, reversing an exceptional charge taken up in 2002 (which was excluded from adjusted earnings in that year).

Exchange gains and losses on external net debt and intragroup balances that are recorded in the US dollar income statement, together with gains and losses on currency and interest rate derivative contracts that do not qualify as hedges under EU IFRS, are excluded from underlying earnings. In 2006, these items represented a gain of US$16 million (2005: a loss of US$139 million).

The effective tax rate on net earnings, excluding equity accounted units was 26.8 per cent compared with 27.8 per cent in 2005. There were significant untaxed gains in 2005 which lowered the effective tax rate and the tax

benefits referred to above reduced the tax rate for 2006.

2005 financial results compared with 2004

Net earnings of US$5,215 million in 2005 were US$1,918 million above 2004, an increase of 58 per cent. Underlying earnings of US$4,955 million were US$2,683 million above 2004, an increase of 118 per cent. The increase of 120 per cent in underlying earnings per share also reflected the lower number of shares resulting from the share buyback programme. The principal factors explaining the changes in underlying earnings are shown in the table above.

Changes in underlying earnings

The effect of price movements on all major commodities was to increase earnings by US$2,374 million. Prices for the major products remained strong throughout the year and were appreciably higher than those experienced in 2004: average copper prices were 28 per cent higher whilst average aluminium prices were ten per cent higher. The strength of the global iron ore market was reflected in the 71.5 per cent increase in the benchmark price, mainly effective from 1 April 2005. The seaborne thermal and coking coal markets were also strong.

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Molybdenum prices, which had generally been below US$5 per pound over the previous ten years, averaged over US$30 per pound during 2005, although they did soften towards the end of that year.

The US dollar was generally weaker than in 2004 relative to the currencies in which the Group incurs the majority of its costs. The average levels of the Australian and Canadian dollars strengthened against the US dollar by four per cent and eight per cent, respectively. The effect of this, together with other currency movements, was to reduce underlying earnings relative to 2004 by US$123 million.

Over 40 per cent of the underlying earnings increase year on year came from higher sales volumes, resulting in a favourable variance of US$1,140 million compared with 2004. The West Angelas and Yandicoogina mine expansions (to 36 million tonnes per annum) were completed in 2005 whilst strong operational performance led to major production gains at many operations including IOC and Argyle. The improvement over 2004 also reflected the following adverse influences on that earlier year: the Grasberg slippage, the ten week strike at IOC and the effects of Cyclone Monty at Hamersley Iron and Robe River. To take advantage of the strong market for molybdenum, the mine sequencing at KUC was optimised to maximise molybdenum production. This, together with modifications to the molybdenum circuit at the concentrator, boosted production volumes by 130 per cent.

Excluding the effects of inflation, higher costs reduced earnings by US$598 million. Of this, US$130 million was due to higher energy costs and US$46 million was attributable to increased exploration expenditure from brownfield exploration and further evaluation work. More generally, costs were influenced by the strong price environment being enjoyed by the mining industry. This led to rising mining input costs caused by supply constraints for skilled labour, steel, tyres, explosives, freight and other mining related goods and services. Costs at KUC were affected by a scheduled 17 day smelter maintenance shutdown in the first half of 2005 whilst continued port congestion at Dalrymple Bay, Queensland, fed through to higher demurrage charges.

Higher non cash costs reflected increased depreciation at KUC following the changes in the mine plan at the end of 2004. Increases in closure cost provisions resulted in higher depreciation charges on the amounts capitalised. One-off costs included restructuring costs of US$30 million relating to the formation of the Rio Tinto Minerals organisation.

The effective tax rate on underlying earnings, excluding equity accounted units, was 29.2 per cent compared with 27.1 per cent in 2004 because of higher rates on increased profits in Canada and Indonesia and higher withholding taxes.

In total "Tax and other items" improved by US$31 million. Within that total, the net after tax interest expense of US$44 million was US$25 million lower than in 2004 due to lower levels of net debt. Also within "Tax and other items", 2004 underlying earnings included contributions totalling US$88 million from the operations of businesses that were sold during that year. Earnings in 2005 benefited from an improvement in the net impact of insurance items, including lower claims on the captive insurers due to the absence of cyclone related damages experienced in 2004.

Exclusions in arriving at underlying earnings

In 2005 the net profit on the disposal of interests in businesses was US$311 million relating mainly to the sale of Rio Tinto's interests in the Labrador Iron Ore Royalty Income Fund and in Lihir Gold. Disposals in 2004, principally the holding in Freeport-McMoRan Copper & Gold, resulted in gains of US$1,175 million.

Net earnings in 2005 include a reduction of US$84 million in an environmental remediation provision at Kennecott Utah Copper, reversing part of an exceptional charge taken up in 2002 (which was excluded from adjusted earnings in that year). Net earnings in 2004 included an impairment charge of US$160 million relating to the Colowyo coal operation and of US$161 million for the write down of Palabora's copper assets.

Exchange gains and losses on external net debt and intragroup balances that are recorded in the US dollar income statement, together with gains and losses on currency and interest rate derivative contracts that do not qualify as hedges under EU IFRS, are excluded from underlying earnings. In 2005, these items represented a loss of US$139 million (2004: a gain of US$171 million).

The effective tax rate on net earnings, excluding equity accounted units was 27.8 per cent compared with 18.5 per cent in 2004. There were very significant untaxed gains in 2004 which lowered the effective tax rate. There was a smaller amount of untaxed gains in 2005 which, together with the adverse 2005 tax effects referred to above, resulted in a higher effective tax rate.

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Group financial results by product group

The table below summarises the Group's underlying earnings by product group for each of the three years to 2006.

	2006 US$m	2005 US$m	2004 US$m
Iron Ore	**2,279**	1,722	565
Energy	**711**	733	431
Industrial Minerals	**243**	187	243
Aluminium	**746**	392	331
Copper	**3,562**	2,020	860
Diamonds	**205**	281	188
Other operations	**33**	40	25
Exploration and evaluation	**(163)**	(174)	(128)
Other items	**(261)**	(202)	(174)
Net interest	**(17)**	(44)	(69)
Group underlying earnings	**7,338**	4,955	2,272
Exclusions from underlying earnings	**100**	260	1,025
Net earnings	**7,438**	5,215	3,297

Trend information

The demand for the Group's products is closely aligned with changes in global GDP. Changes in the GDP of developing countries are expected to have greater impact on materials such as iron ore and coal that can be used to improve infrastructure whereas changes in the GDP of developed countries are expected to have greater impact on industrial minerals that have many applications in consumer products. Copper is used in a wide range of applications from infrastructure to consumer electronics and demand for it has tended to grow in line with or slightly faster than global GDP. Trends in production of the Group's minerals and metals, gross sales revenue and underlying earnings are set out in this *Operating and financial review*.

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IRON ORE GROUP

Production	Rio Tinto share million tonnes
2002	91.0
2003	102.6
2004	107.8
2005	124.5
2006	132.8

Underlying earnings contribution*	US$m
2004	565
2005	1,722
2006	2,279

Changes in underlying earnings 2004 - 2006	US$m
2004 Underlying earnings	565
Effect of changes in:	
Prices and exchange rates	968
General inflation	(18)
Volumes	270
Costs	(51)
Tax and other	(12)
2005 Underlying earnings	1,722
Effect of changes in:	
Prices and exchange rates	616
General inflation	(25)
Volumes	156
Costs	(220)
Tax and other	30
2006 Underlying earnings	2,279

* A reconciliation of the net earnings with underlying earnings for 2004, 2005 and 2006 as determined under EU IFRS is set out on page 39

Rio Tinto's Iron Ore group (RTIO) comprises iron ore operations in Australia, Canada and Brazil and development projects in Guinea (west Africa) and India. The portfolio also includes a HIsmelt ® plant in Australia, which is a revolutionary process that converts iron ore fines into high quality pig iron.

At 31 December 2006, the iron ore group accounted for 32 per cent of Rio Tinto's operating assets, and in 2006 contributed 27 per cent of the Group's gross sales revenue and 31 per cent of underlying earnings.

RTIO employs 4,800 people in Western Australia and approximately 7,000 worldwide. RTIO recruited strongly during the year and in a highly contested recruitment market in Western Australia hired 1,400 new starters, in addition to making a large number of internal transfers, secondments and promotions.

Work progressed on a number of safety and environmental initiatives, and particularly focused on the issues surrounding contractor management and the operation of heavy mobile equipment.

Final steps were taken for the next stage of the group's expansion, with infrastructure now in place or approved to handle up to 220 million tonnes of iron ore exports annually. The growth strategy has seen

approximately US$5 billion committed to port, rail, power and mine assets since 2003, resulting in a world class, integrated iron ore network able to capitalise on continued strong demand internationally.

In April 2006, RTIO's 50:50 joint venture with Hancock Prospecting for the development of the Hope Downs project was ratified following State Government approval. Construction of the US$980 million, 22 million tonnes per annum stage one Hope Downs mine has started, with production expected to commence in early 2008.

Sam Walsh, chief executive Iron Ore, is based in Perth, Western Australia.

Financial performance

2006 compared with 2005

RTIO's contribution to 2006 underlying earnings was US$2,279 million, US$557 million higher than in 2005.

Demand for iron ore remained extremely strong across the product range throughout 2006, driven by the continuing strong growth in global steel demand and production. Total Chinese iron ore imports rose from 275 million tonnes to 326 million tonnes. Hamersley Iron, Robe River, Iron Ore Company of Canada and Corumbá in Brazil all operated at record or near record levels of production in 2006.

For the contract year commencing April 2006, RTIO reached agreement with customers on price increases of 19 per cent for all products following on from the previous agreement of a 71.5 per cent increase. In December 2006, prices for the 2007 contract year were agreed with Baosteel of China, for a 9.5 per cent increase to the benchmark price. Similar price increase agreements were subsequently reached with other steelmakers.

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2005 compared with 2004

RTIO's contribution to 2005 underlying earnings was US$1,722 million, US$1,157 million higher than in 2004. Demand for iron ore continued to be extremely strong across the product range throughout 2005, driven by continued strong growth in global steel production and improvements in steel demand. Chinese iron ore imports rose 30 per cent year on year, and Hamersley Iron, Robe River, IOC and Corumbá all achieved record production in 2005.

Operations

Hamersley Iron (Rio Tinto: 100 per cent)

Hamersley Iron operates eight mines in Western Australia, including two mines in joint ventures, 630 kilometres of dedicated railway, and port and infrastructure facilities located at Dampier. These assets are run as a single operation managed and maintained by Pilbara Iron.

The first phase of major expansions to the Pilbara infrastructure (including expanding Dampier port to 116 million tonnes per annum and Yandicoogina mine to 36 million tonnes per annum, and brownfields mine expansion) is now fully operational and the second phase is well under way and tracking on schedule and on budget.

The Marandoo mine was expanded and the new Nammuldi mine was completed in the second quarter of the year.

Hamersley Iron's Yandicoogina mine is being expanded from 36 million tonnes per annum to 52 million tonnes and the scheduled completion has been accelerated to the end of the third quarter in 2007. Work also continued on pre-development studies for new mines.

2006 operating performance

Hamersley Iron's total production in 2006 was 97.2 million tonnes, 7.6 million tonnes more than the 89.6 million tonnes in 2005, notwithstanding the volume of expansion work under way across the business. Rio Tinto's share of this production was 93.3 million tonnes.

Flooding caused by a succession of five cyclones early in the year hindered operations significantly. Production increases through the year sought to recover from the early setbacks and meet increased capacity targets.

Shipments by Hamersley Iron totalled 98.1 million tonnes, including sales through joint ventures. Hamersley Iron's shipments to China also reached a new record level at 52.9 million tonnes, securing China's place as the single largest destination for Hamersley's iron ore.

Production from all mines was stretched to achieve these levels, placing cost and other operating stresses on the Hamersley Iron system. Ongoing labour shortages in a competitive market and materials pressures such as tyre shortages also provided significant challenges to meeting production targets.

Hamersley's total shipments of iron ore to major markets in 2006	Million tonnes
China	52.9
Japan	27.4
Other Asia	15.8
Europe	2.0
Total	98.1

Note

This table includes 100 per cent of all shipments through joint ventures.

Robe River Iron Associates (Rio Tinto: 53 per cent)

Robe River Iron Associates (Robe) is an unincorporated joint venture in which Mitsui (33 per cent), Nippon Steel (10.5 per cent) and Sumitomo Metal Industries (3.5 per cent) also have interests. Robe River is the world's fourth largest seaborne trader in iron ore.

Robe River operates two open pit mining operations in Western Australia. Mesa J is located in the Robe Valley,

north of the town of Pannawonica. The mine produces Robe River fines and lump, which are pisolitic iron ore products. The West Angelas mine, opened in 2002, is located approximately 100 kilometres west of the town of Newman. The mine produces West Angelas fines and lump, which are Marra Mamba iron ore products. Preparations are under way for these products to contribute to the Pilbara Blend from the third quarter 2007, when RTIO's product range will be simplified from nine products to five.

Expansion of mine, rail and port operations has continued. As a result of the 2005 expansion of the West Angelas mine, which took production capacity to 25 million tonnes per annum, Robe River's overall production capacity increased to a nominal 57 million tonnes per year.

The expansion of the dedicated rail system, operated by Pilbara Iron, was completed during the year, ahead of schedule. Completion of the northern section of the Pilbara Iron main line meant that almost 100 kilometres of track and associated interconnection and infrastructure such as signalling and communications is now duplicated. This provides

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significantly greater flexibility, and hence improvements to capacity, in delivering ore to Robe River's deepwater port facilities at Cape Lambert.

The expansion of the Cape Lambert port facility from 55 million tonnes to a rated capacity of 80 million tonnes per annum was recently approved. This is a significant project, comprising a number of major initiatives, including a new product reclaimer and an extended wharf.

Robe River primarily exports under medium and long term supply contracts with major integrated steel mill customers in Japan, China, Europe, South Korea and Taiwan.

2006 operating performance

Cyclones slowed production early in the year at Robe River's Pannawonica and West Angelas mines and hindered operations well into the second quarter. Robe River's total production in 2006 was 52.9 million tonnes, comprising 29.3 million tonnes from Mesa J, and 23.7 million tonnes from West Angelas. Sales were 29.1 million tonnes of Mesa J and 23.3 million tonnes of West Angelas products.

Sales growth, based on increased production from West Angelas, was again fuelled by the growth in the Chinese market, where Robe River achieved record total sales of 18.5 million tonnes. However, Japan remains Robe River's largest single market, with total shipments in 2006 of 24.7 million tonnes.

A new mining strategy at West Angelas has resulted in an improved product, with less grade variation. This improved performance is expected to continue through the transition to the Pilbara Blend.

Robe's total shipments of iron ore to major markets in 2006	Million tonnes
Japan	24.7
China	18.5
Europe	6.1
Other Asia	2.7
Total	52.0

Iron Ore Company of Canada (Rio Tinto: 58.7 per cent)

RTIO operates Iron Ore Company of Canada (IOC) on behalf of shareholders Mitsubishi (26.2 per cent) and the Labrador Iron Ore Royalty Income Fund (15.1 per cent). IOC is Canada's largest iron ore pellet producer. It operates an open pit mine, concentrator and pellet plant at Labrador City, Newfoundland and Labrador, together with a 418 kilometre railway to its port facilities in Sept-Îles, Quebec. IOC has large quantities of ore reserves with low levels of contaminants.

Products are transported on IOC's railway to Sept-Îles. The port is open all year, handles ore carriers of up to 255,000 tonnes and provides competitive access to all seaborne pellet markets and to the North American Great Lakes region. IOC exports its concentrate and pellet products to major North American, European and Asian steel makers.

IOC employs approximately 1,900 people and recruited 250 people during the year to offset an increase in retirements and to meet greater production needs.

2006 operating performance

While concentrate prices continued to rise, showing a 17.3 per cent increase, the pellet premium retreated from the record high of the previous year, resulting in pellet prices softening by 3.5 per cent. Pellets account for 80 per cent of IOC's production.

Total saleable production was 16.1 million tonnes (compared with 15.6 million tonnes in 2005) following a strong recovery from weather related production losses in the first quarter. The total was made up of 12.7 million tonnes of pellet production (13.3 million tonnes in 2005) and 3.4 million tonnes of saleable concentrate production (2.3 million tonnes in 2005).

Higher oil prices and efforts to recover first quarter production losses put pressure on unit costs. A project to increase annual concentrate production to 17.5 million tonnes was largely completed by the year end, and plans

for further expansion are currently under consideration. IOC commenced negotiation of a new collective agreement in the fourth quarter of 2006, and following a five-week labour dispute, a new five-year collective agreement was concluded in the second quarter of 2007.

IOC's total shipments of iron ore to major markets in 2006	Million tonnes
Europe	5.7
Asia Pacific	5.4
North America	4.8
Total	15.9

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Mineração Corumbaense Reunida (Corumbá) (Rio Tinto: 100 per cent)
Corumbá produced a record two million tonnes of lump iron ore in 2006 and sold 1.8 million tonnes, which was barged along the Paraguay River for export to South American and European customers. The feasibility of expanding production at the mine in stages to 15 million tonnes per annum is under study. Logistic options are being considered for expanded export sales and for supplies to a proposed steel making project at Corumbá, which is being promoted by Rio Tinto. Corumbá has over 200 million tonnes of reserves and over 400 million tonnes of additional mineralised material. There are approximately 500 employees.

HIsmelt® (Rio Tinto: 60 per cent)
The HIsmelt® iron making project at Kwinana in Western Australia is a joint venture between Rio Tinto (60 per cent interest through its subsidiary, HIsmelt® Corporation), US steelmaker Nucor Corporation (25 per cent), Mitsubishi Corporation (10 per cent), and Chinese steelmaker Shougang Corporation (five per cent). The project has so far received support of A$80 million from the Australian federal government.

The HIsmelt® process is a direct iron smelting technology developed largely by Rio Tinto that converts iron ore fines into high quality pig iron (96 per cent iron content) without the use of coke ovens and sinter plants. Notably, the technology allows efficient processing of ore fines with higher levels of impurities.

In 2006 the Hlsmelt® plant moved into the first year of a three-year ramp up to its full production rate of 800,000 tonnes per annum. Since start up, the facility has produced 98,000 tonnes of pig iron and has made three shipments of product.

HIsmelt® has approximately 130 employees.

In 2006 the HIsmelt® facility hosted visits from senior representatives of the Chinese government, as well as a significant number of international steel companies. HIsmelt® Corporation continues to promote the technology globally and expects interest to increase as the ramp up phase progresses. In November, Australian state and federal ministers attended a special ceremony at Kwinana to recognise the opening of the world's first commercial HIsmelt® plant.

Projects
Orissa, India (Rio Tinto: 51 per cent)
Orissa is one of the key iron ore regions of the world. RTIO has a joint venture interest in Rio Tinto Orissa Mining with the state owned Orissa Mining Corporation. The joint venture holds rights to iron ore leases in Orissa, which it is seeking to develop. Rio Tinto is keen to participate in the development of the Indian iron ore sector through its joint venture. A project team has been established and is working to expedite the development of operations in India.

India's economy is expected to maintain its present growth, so providing support for an expanding domestic steel industry, and discussions have continued with major domestic steel companies.

Simandou, Guinea (Rio Tinto: 95 per cent)
The Simandou project in eastern Guinea, west Africa, is a Rio Tinto greenfields discovery with potentially significant quantities of high grade iron ore. Simandou moved from Rio Tinto Exploration to full project status as part of RTIO in October 2004. A prefeasibility study is assessing the mining and transport options needed to bring Simandou into production as quickly as possible. The International Finance Corporation (the private sector arm of the World Bank Group) took a five per cent stake in the project in August 2006 and is working with Rio Tinto to develop the project in an environmentally and socially sustainable way. To date Rio Tinto has spent more than US$50 million on the project.

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ENERGY GROUP

Mined *Coal*	**Rio Tinto share million tonnes**
2002	149.1
2003	148.8
2004	157.4
2005	153.6
2006	162.3

Underlying earnings contribution*	**US$m**
2004	431
2005	733
2006	711

Changes in underlying earnings 2004 - 2006	**US$m**
2004 Underlying earnings	431
Effect of changes in:	
Prices and exchange rates	483
General inflation	(41)
Volumes	8
Costs	(140)
Tax and other	(8)
2005 Underlying earnings	733
Effect of changes in:	
Prices and exchange rates	199
General inflation	(50)
Volumes	(13)
Costs	(209)
Tax and other	51
2006 Underlying earnings	711

* A reconciliation of the net earnings with underlying earnings for 2004, 2005 and 2006 as determined under EU IFRS is set out on page 39

The Energy group comprises thermal coal and coking coal operations and uranium. Coal interests are located in Australia and the US. They supply internationally traded and US and Australian domestic markets. The energy portfolio also includes Rössing Uranium in Namibia and Energy Resources of Australia which supply uranium oxide for electricity generation globally.

The group has consolidated its asset holdings, branding and product stewardship with the creation of Rio Tinto Coal Australia, Rio Tinto Energy America and Rio Tinto Uranium. An overarching group strategy was needed to harness and focus resources to deliver a world class performance in operations, sustainable development and value creation.

In 2006 the Energy group undertook a review of its strategy and asset portfolio. The review highlighted the importance of the Japanese and US markets to the business and the role of China in providing depth in demand whilst increasing the potential volatility. The strategy is focused on becoming the world□s leader in mineable

energy.

A key part of the strategy is to ensure that the group is a leading advocate of, and investor in, the sustainable future uses of coal and uranium. In 2006 the group dedicated resources and investment funds to the FutureGen project in the US, COAL21 in Australia and the International Energy Agency Clean Coal Centre.

In uranium, both ERA's Ranger mine in Australia and the Rössing Uranium mine in Namibia represent low cost brownfield expansion opportunities. Rio Tinto also holds other attractive undeveloped uranium deposits, including Kintyre in Western Australia, and we are currently assessing the viability of restarting the Sweetwater uranium mill and adjacent uranium mine in Wyoming, US.

At 31 December 2006, the Energy group accounted for 13 per cent of Group operating assets and, in 2006, contributed 17 per cent of Rio Tinto's gross sales revenue and ten per cent of underlying earnings.

Preston Chiaro, chief executive Energy, is based in London.

Financial performance

2006 compared with 2005

The Energy group's 2006 contribution to underlying earnings was US$711 million, US$22 million lower than in 2005.

Results benefited from a sustained increase in the price received for thermal coal during 2006. Problems in the coal supply chain in the Hunter Valley region of New South Wales impeded production from Coal & Allied operations. Drought in parts of Queensland and New South Wales has begun to affect production levels. Operations focused on producing high margin products and optimising the coal supply chain. Increases in the cost of basic materials, fuel,

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explosives and labour were not fully offset by production growth, resulting in a rise in the cost per unit of production across all operations.

Our uranium businesses continue to provide options and opportunities in the reinvigorated international uranium market. The focus of the uranium operations is to seek additional production volumes and long term expansions to sell into the current favourable price environment. Spot prices for uranium oxide strengthened considerably during the period, increasing from US$36.38 at the beginning of the year to close at US$72 in December. Uranium oxide is typically sold on long term contracts, with pricing determined several years in advance. The significant rise in the spot price of uranium oxide during the period is therefore not fully reflected in the current earnings. The effects of the 2006 pricing levels will flow through to earnings in future years. Our uranium businesses are contracted and priced to 98 per cent in 2007 and 88 per cent in 2008.

2005 compared with 2004

The Energy group's 2005 contribution to underlying earnings was US$733 million, US$302 million higher than in 2004.

A significant increase in the price received for both thermal and coking coal during 2005 was a key factor in this improvement. Third party infrastructure issues continued to impede production growth in all of the coal operations. Operational emphasis shifted to high margin products and to facilitating the further expansion of the Hail Creek mine into a strong market for coking coal. The inability to reap the required economies of scale and an increase in the price of fuel and explosives resulted in a rise in the unit cost of production across the group.

Spot prices for uranium oxide strengthened considerably during 2005, increasing from US$20.43 at the beginning of the year to close at US$36.38 in December. The significant rise in the spot price of uranium oxide during the period was not fully reflected in the year's earnings.

Operations

Rio Tinto Energy America (Rio Tinto: 100 per cent)

Rio Tinto Energy America (RTEA, formerly known as Kennecott Energy) wholly owns and operates four open cut coal mines in the Powder River Basin of Montana and Wyoming, US, and has a 50 per cent interest in, but does not operate, the Decker mine in Montana. RTEA also manages the group's interest in Colowyo Coal in Colorado, US. In total it employs approximately 2,300 people.

One of the largest US producers, RTEA sells its ultra low sulphur coal to electricity generators predominantly in mid western and southern states. Sales are made under multiple year contracts and on a spot basis for one year or less.

The domestic US market for low sulphur coal continues to grow due to its competitive cost per delivered energy unit and restrictions on sulphur emissions by utilities. The strong demand for low cost and low sulphur western coal is expected to continue and grow with the announcement of numerous new coal fired generation projects and increased utilisation of existing coal generation capacity in the US.

2006 operating performance

RTEA's attributable production of 125 million tonnes of coal was eight per cent higher than in 2005, with production increasing at all of the mines. Expansions at Antelope and Spring Creek increased output to record levels. The new dragline commissioned at Jacob's Ranch during the year enabled a new production record to be set. Underlying earnings of US$177 million were 31 per cent higher than the US$135 million recorded in 2005. This increase was attributable to overall production increases and a higher sales price realisation, somewhat offset by a higher effective tax rate and increased operational costs, particularly the cost of diesel, explosives, tyres and labour.

Spot prices were volatile during the period. The spot price for 8800 BTU (0.80 sulphur) moved from US$23 a tonne in December 2005 to US$9 in December 2006 for delivery the following year.

A fatality occurred at the Spring Creek mine in November 2006.

Rio Tinto Coal Australia (Rio Tinto: 100 per cent)

Rio Tinto Coal Australia (RTCA) manages the group's Australian coal interests. These include, in Queensland; the Blair Athol (Rio Tinto: 71 per cent), Kestrel (Rio Tinto: 80 per cent), Tarong (Rio Tinto: 100 per cent) and Hail Creek (Rio Tinto: 82 per cent) coal mines and the Clermont deposit (Rio Tinto: 50 per cent).

RTCA also provides management services to Coal & Allied Industries (Coal & Allied) for operation of its four mines located within the Hunter Valley in New South Wales. Coal & Allied (Rio Tinto: 75.7 per cent) is publicly listed on the Australian Securities Exchange and had a market capitalisation of A$6.5 billion (US$ 4.9 billion) at 31 December 2006. Coal & Allied wholly owns Hunter Valley Operations, has an 80 per cent interest in Mount Thorley Operations and a 55.6 per cent interest in the contiguous Warkworth mine, and a 40 per cent interest in the Bengalla mine which abuts its wholly owned Mount Pleasant development project. Coal & Allied also has a 37 per cent interest in Port Waratah Coal Services coal loading terminal.

Production from the Tarong mine is sold exclusively to Tarong Energy Corporation, an adjacent state owned power utility. A ten year contract for up to 7.5 million tonnes annually expires at the end of 2010.

Kestrel and Hail Creek sell mainly metallurgical coal to customers in Japan, south east Asia, Europe and Central

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America, generally on annual agreements.

Coal & Allied produces thermal and semi soft coal. Most of its thermal coal is sold under contracts to electrical or industrial customers in Japan, Korea and elsewhere in Asia. The balance is sold in Europe and Australia. Coal & Allied's semi soft coal is exported to steel producing customers in Asia and Europe under a combination of long term contracts and spot business.

In May 2007 Coal & Allied announced production cutbacks of approximately 20% at its Hunter Valley mines following notice of reductions in its port and rail allocations for the remainder of the year.

In June 2007 Coal & Allied declared force majeure on a number of its sales contracts as a result of the severe weather conditions encountered at the Port of Newcastle and in the Hunter Valley region of New South Wales.

RTCA and Coal & Allied collectively employ approximately 2,500 people.

2006 operating performance

RTCA and Coal & Allied's combined underlying earnings of US$490 million in 2006 were 14 per cent below the 2005 result because of coal supply chain bottlenecks and increased operating costs.

At all operations other than Tarong, sales were constrained by inability of the infrastructure to handle producer demand. Blair Athol and Hail Creek shipments were both affected by infrastructure constraints at the Dalrymple Bay Coal Terminal, while Coal & Allied mines were similarly affected at Port Waratah in New castle because of constraints in the volume of material that could be railed to the port.

Total production at Blair Athol decreased from 10.6 million tonnes to 10.2 million tonnes primarily as a result of limited port capacity. Kestrel's production fell three per cent to 3.6 million tonnes in 2006; this included 2.7 million tonnes of coking coal. At Tarong, production increased by eight per cent to 7.0 million tonnes in line with demand from Tarong Energy Corporation. Hail Creek production was 4.5 million tonnes, a reduction of 23 per cent.

At Hunter Valley Operations, total production decreased from 12.4 million tonnes to 12.0 million tonnes. The integrated Mount Thorley Warkworth operations increased production by ten per cent to 11.2 million tonnes. At Bengalla, production decreased seven per cent from 6.0 million tonnes to 5.5 million tonnes.

Safety performance and awareness continue to be the major focus of all operations managed by RTCA.

Rössing Uranium (Rio Tinto: 68.6 per cent)

Rössing produces and exports uranium oxide from Namibia to European, US and Asia Pacific electricity producers. In June, Rössing celebrated its thirtieth anniversary of uranium oxide production. 2006 also marked the first year of production of the life of mine extension.

Rössing employs approximately 900 people.

2006 operating performance

In 2006, total production of uranium oxide decreased slightly to 3,617 tonnes. The higher market prices for uranium oxide are beginning to flow through into underlying earnings. However, the higher realised prices were partially offset by an increase in cash costs and higher taxation levels, resulting in a US$27million underlying earnings contribution in 2006.

Rössing continues to put a significant effort and management focus on safety. The goal is to eliminate all injuries from the workplace and to have an embedded safety culture and systems that identify and rectify potential safety incidents.

Energy Resources of Australia (Rio Tinto: 68.4 per cent)

Energy Resources of Australia Ltd (ERA) is publicly listed and had a market capitalisation of A$4.0 billion (US$3.0 billion) at 31 December 2006. ERA employs approximately 400 people, with 13 per cent of the operational workforce being represented by Aboriginal people.

ERA produces uranium oxide at the Ranger open pit mine, 260 kilometres east of Darwin in the Northern Territory. ERA also has title to the nearby Jabiluka mineral lease, which in 2003 was put on long term care and maintenance.

Ranger has a 5,500 tonnes per year nameplate capacity and started production in 1981. ERA's operations, including Jabiluka, are surrounded by, but remain separate from, the World Heritage listed Kakadu National Park, and especially stringent environmental requirements and governmental oversight apply.

2006 operating performance

Total uranium oxide production of 4,704 tonnes was significantly below the 5,903 tonnes produced in 2005 owing to the effects of a tropical cyclone and a failure in the acid plant. Stronger prices were partially offset by the higher cost of consumables and resulted in underlying earnings of US$17 million. During the year, ERA embarked upon an extensive exploration and development programme to identify new reserves and increase the mine life of existing reserves.

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Projects

Rössing Uranium (Rio Tinto: 68.6 per cent)
In December 2005, approval was granted to extend the life of the operation until at least 2016 and restore annual production capacity to 4,000 tonnes per annum at a total incremental and sustaining capital cost of US$112 million.

Energy Resources of Australia (Rio Tinto: 68.4 per cent)
ERA is spending A$27.6 million in 2007 to construct a plant at the Ranger mine to process lateritic ore, a material containing a high proportion of clay minerals. The laterite processing plant will contribute approximately 400 tonnes per annum of uranium oxide to ERA's production from 2008 through to 2014. Construction of the plant will commence in April 2007, with the first lateritic ore scheduled for processing in the first quarter of 2008.

Rio Tinto Coal Australia Clermont (Rio Tinto: 50.1 per cent)
Rio Tinto and its joint venture partners approved investment of US$750 million for the development of the Clermont thermal coal mine in central Queensland, situated 15 kilometres south east of the Blair Athol Mine. Clermont is expected to become Australia's largest thermal coal producer when it reaches full capacity, which is scheduled for 2013. The mine is expected to be brought into production to replace Blair Athol, due to close in 2012, and will use Blair Athol's existing infrastructure and market position.

Coal & Allied Mount Pleasant (Rio Tinto: 75.7 per cent)
In 2006, Coal & Allied started a feasibility study on the Mount Pleasant coal mine project located adjacent to the Bengalla mine near Muswellbrook in the Hunter Valley, New South Wales. The study is expected to take about 12 months to complete and will include extensive community consultation.

Hydrogen Energy (Rio Tinto: 50.0 per cent)
In May 2007, Rio Tinto and BP announced the formation of a new jointly owned company, Hydrogen Energy, which would develop decarbonised energy projects around the world. The venture would initially focus on hydrogen fuelled power generation, using fossil fuels and carbon capture and storage technology to produce new large scale supplies of clean electricity. The first new project would be for the potential development of a US$1,500 million coal fired power generation project at Kwinana in Western Australia. This project would be subject to the successful outcome of detailed engineering and commercial studies and to government policy to make it commercially viable.

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INDUSTRIAL MINERALS GROUP

Production	**Rio Tinto share**
Borates	**'000 tonnes B_2O_3**
2002	528
2003	559
2004	565
2005	560
2006	553

Titanium dioxide	**'000 tonnes**
2002	1,274
2003	1,192
2004	1,192
2005	1,312
2006	1,415

Underlying earnings contribution*	**US$m**
2004	243
2005	187
2006	243

Changes in underlying earnings 2004 - 2006	**US$m**
2004 Underlying earnings	243
Effect of changes in:	
Prices and exchange rates	35
General inflation	(14)
Volumes	27
Costs	(92)
Tax and other	(12)
2005 Underlying earnings	187
Effect of changes in:	
Prices and exchange rates	34
General inflation	(18)
Volumes	3
Costs	—
Tax and other	37
2006 Underlying earnings	243

* A reconciliation of the net earnings with underlying earnings for 2004, 2005 and 2006 as determined under EU IFRS is set out on page 39.

Rio Tinto's Industrial Minerals group comprises Rio Tinto Minerals, which produces borates, talc and salt, and Rio Tinto Iron & Titanium, a major producer of titanium dioxide feedstock. Rio Tinto is a global leader in the supply and science of these products. There are more than 200 industrial minerals and markets are often diverse, highly technical and require unique marketing and sales expertise.

At 31 December 2006, Industrial Minerals accounted for 13 per cent of the Group's operating assets and in 2006 contributed approximately ten per cent of Rio Tinto's gross sales revenue and three per cent of underlying earnings. Approximately 7,000 people were employed in 2006.

The Industrial minerals group was combined with the Diamonds group with effect from 1 June 2007, to form the Diamonds and Minerals group. Andrew Mackenzie, chief executive Diamonds and Minerals and formerly chief executive Industrial minerals, is based in London.

Financial performance

2006 compared with 2005

Industrial Minerals' contribution to 2006 underlying earnings was US$243 million, a 30 per cent improvement on 2005.

Rio Tinto Minerals' underlying earnings, at US$91 million, were 54 per cent higher than in 2005. Despite upward cost pressure caused by cyclones and labour markets in Western Australia, the absence in 2006 of the 2005 Rio Tinto Minerals restructure provision, coupled with modest revenue increases, led to this improved result.

Rio Tinto Iron & Titanium underlying earnings, at US$152 million, were 19 per cent higher than in 2005. Good price performance across all products, combined with favourable volume trends, strict cost control at Richards Bay Minerals and beneficial Canadian tax changes, offset increased costs in the Canadian operations and the impact of the strong Canadian dollar.

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2005 compared with 2004

Industrial Minerals contribution to the Group's 2005 underlying earnings was US$187 million, 23 per cent lower than in 2004, reflecting significant one off costs of US$42 million after tax, including provision for restructuring in relation to the formation of Rio Tinto Minerals. There were also increased energy and distribution costs at all business units.

Dampier Salt and Rio Tinto Iron & Titanium incurred high initial operating costs for the commissioning of a new plant and for the upgraded titanium slag (UGS) expansion. Rio Tinto Iron & Titanium also incurred a tax expense of US$13 million resulting from a change in the tax rate for QIT-Fer et Titane in Quebec.

Rio Tinto Borax's underlying earnings, at US$48 million, were 48 per cent lower than in 2004. The borates business was affected by lower sales volumes and higher energy and distribution costs. Rio Tinto Borax also incurred a one off restructuring cost of US$12 million after tax in relation to the formation of Rio Tinto Mineral.

Rio Tinto Iron & Titanium's underlying earnings, at US$128 million, were ten per cent higher than in 2004. Strong price performance across all products, combined with increased volumes and strict cost performance at Richards Bay Minerals led to this strong result.

Operations

Rio Tinto Minerals

During 2006, three of Rio Tinto's Industrial Minerals businesses Borax, Luzenac and Dampier Salt combined their management to form a new and more efficient organisation called Rio Tinto Minerals. Rio Tinto Minerals' global presence includes mines and refineries, shipping facilities, refining and packing facilities and sales and technical facilities throughout the Americas, Asia and Europe.

The company serves 2,500 customers in approximately 100 countries. The global operational headquarters have been relocated to Denver, Colorado, and the global commercial headquarters are in Chiswick, London.

Borates More than one million tonnes of refined borates are produced at the principal borate mining and refining operation, Boron, in California's Mojave Desert. Borates are essential to plants and are part of a healthy diet for people. They are also key ingredients in hundreds of modern products, chief among them: insulation fibreglass, textile fibreglass and heat resistant glass (44 per cent of world demand); ceramic and enamel frits and glazes (13 per cent); detergents, soaps and personal care products (six per cent); agricultural micronutrients (seven per cent); and other uses including wood preservatives and flame retardants (30 per cent).

Talc Rio Tinto Minerals operates talc mines, including the world's largest (in south west France), and processing facilities in Australia, Austria, Belgium, Canada, France, Italy, Japan, Mexico, Spain, the UK and the US. Talcs enhance performance in countless applications, including paper, paints, putties, roofing materials, plastics, automotive parts, ceramics, foundry, rubber goods, personal care products, agriculture, food, pharmaceuticals, soap, cosmetics, and pesticides. This multiplicity demands an in depth understanding not only of talc's properties and functions but also of its full range of applications and user industries.

Salt Rio Tinto Minerals manages Dampier Salt's (Rio Tinto: 64.9 per cent) three salt operations located in Western Australia. It produces industrial salt by solar evaporation at Dampier, Port Hedland and Lake MacLeod, where it also mines gypsum. Dampier Salt's customers are located in Asia and the Middle East . The majority are chemical companies which use salt as basic feed for the production of chlorine and caustic soda (together known as chlor-alkali production). Dampier Salt's product is also used as food salt and for general purposes, including road de-icing.

2006 operating performance

In 2006 Rio Tinto Minerals streamlined its sales and administrative function, reducing staff by 20 per cent and closing three laboratories and three offices. There are plans to close two more. In its operations, Rio Tinto Minerals divested several less profitable product lines and operational sites, built boric acid capacity, approved new salt capacity, and improved plant efficiency, mine planning and energy use. In the marketplace, North America remains the most profitable region for Rio Tinto Minerals products. Developing economies such as China, eastern Europe and India hold promise because of their rising living standards and the demand for higher quality raw materials.

Borates Production volumes were down one per cent, at 553,000 tonnes, but sales volumes remained consistent with 2005's total. Asia continued to drive growth in the borate market, though there were pockets of growth in Russia and eastern Europe. In North America, stagnation in the housing market signals a possible decline in

demand from insulations and wood preservatives customers, but this is likely to be offset by retrofit and remodeling trends. Rio Tinto Minerals expanded its boric acid capacity by a further 56,000 tonnes to supply market growth. The project was completed on time and under budget and is meeting planned throughput.

Talc – Talc production volumes increased two per cent, while sales volumes remained at the same level as 2005, reflecting stable markets with growth in the polymer, paint and technical ceramics sector offsetting declines in paper.

Salt – Five cyclones in Western Australia during 2006 adversely affected salt operations, reducing production by almost two per cent to 8.3 million tonnes (Rio Tinto share: 5.4 million tonnes). Sales volumes decreased by five per cent. Despite this, supply reliability and excellent customer relations were maintained. Repairs are well under way. The residual impact of dilution from the record rains will be felt for the next two years. At Lake MacLeod, a 26 per cent capacity increase was approved by all shareholders.

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Rio Tinto Iron & Titanium

Rio Tinto Iron & Titanium (RIT) comprises the wholly owned QIT-Fer et Titane (QIT) in Quebec, Canada and the 50 per cent interest in Richards Bay Minerals (RBM) in KwaZulu-Natal, South Africa. Both operations produce titanium dioxide feedstock used as pigment by manufacturers of paints and surface coatings, plastics and paper. Coproducts include high purity iron and zircon.

QIT's proprietary process technology enables it to supply both the sulphate and chloride pigment manufacturing methods. Its upgraded slag (UGS) plant supplies the growing chloride sector and is designed for expansion, in line with demand, up to a capacity of 600,000 tonnes per year. During 2006, RIT expanded its UGS plant to 375,000 tonnes per annum, three months ahead of schedule.

RBM's ilmenite has a low alkali content, which makes its feedstock suitable for the chloride pigment process. RBM has the capacity to produce one million tonnes of feedstock annually.

2006 operating performance

RIT increased production across all of its products in 2006, with a ten per cent increase in UGS as expanded capacity was brought on-line. RBM operated at full capacity and saw an eleven per cent increase in titanium dioxide (TiO_2) feedstock production.

Strong market performance led to strong financial performance as TiO_2 pigment producers reported an increase in sales volumes of five per cent on average during 2006, after a decrease in 2005 of 0.5 per cent. Market conditions remain tight for chloride feedstock, as chloride pigment plants continue to run at high utilisation rates. Demand for high-grade TiO_2 feedstock, such as QIT's UGS, remains strong. Market conditions for iron and steel co-products also remain strong. Zircon prices continued to increase throughout 2006, as demand was effectively constrained by available supply. The offices of RIT were relocated from Montreal to the UK during 2006.

Projects

QIT Madagascar Minerals (Rio Tinto: 80 per cent)

In 2005 Rio Tinto announced the approval of the Madagascar titanium dioxide project. RIT manages the project, in which an agency of the Government of Madagascar has a 20 per cent interest.

The project comprises a mineral sands operation and port in Madagascar and an upgrade of Rio Tinto's ilmenite facilities in Canada. First production from the operation in the Fort-Dauphin region of Madagascar is expected in late 2008 and the initial capacity will be 750,000 tonnes of ilmenite per year. During 2006 the definitive cost estimate of the project was finalised. The cost increased by just under ten per cent to US$850 million. The cost inflation was mainly caused by higher materials costs and foreign exchange pressures but increased production capacity and logistics will ensure the project value is unchanged.

The ilmenite will be smelted at Rio Tinto's facilities at Sorel in Quebec. This will require an upgrade of storage and handling facilities as well as their associated ancillary services. With a grade of 60 per cent titanium dioxide, the Madagascar orebody is the world's largest known undeveloped high grade ilmenite deposit. It has an expected mine life of 40 years and will supply a new, high quality chloride slag with 91 per cent titanium dioxide content to meet long term demand for titanium dioxide by the pigment industry.

A deep sea multi-use public port at Ehoala, near the town of Fort-Dauphin, is an important component of the project. The mine will be the key initial customer, providing the base load to help establish the port. Over time, it is expected the port will make an important contribution to the economic development of the region.

The Government of Madagascar contributed US$35 million to the establishment of the port, as part of its Growth Poles Project funded by the World Bank. RIT will manage the port operations.

Potasio Rio Colorado S.A. (Rio Tinto: 100 per cent)

The Rio Colorado potash project in Argentina lies 1,000 km south west of Buenos Aires. Evaluation of the project began in late 2003, and a large scale trial of solution mining of the potash has run successfully from late 2004. Currently a feasibility study is under way and, assuming favourable progress, will be completed in 2007. A positive development decision in 2007 could see first production from the mine in 2010 and production volumes in the range of 1.6 to 2.4 million tonnes per year.

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ALUMINIUM GROUP

Mined *Weipa bauxite*	**Rio Tinto share million tonnes**
2002	11.2
2003	11.9
2004	12.6
2005	15.5
2006	16.1

Production *Alumina*	**Rio Tinto share '000 tonnes**
2002	1,947
2003	2,014
2004	2,231
2005	2,963
2006	3,247

Aluminium	**'000 tonnes**
2002	794
2003	817
2004	837
2005	854
2006	845

Underlying earnings contribution*	**US$m**
2004	331
2005	392
2006	746

Changes in underlying earnings 2004 - 2006	**US$m**
2004 Underlying earnings	331
Effect of changes in:	
Prices and exchange rates	93
General inflation	(34)
Volumes	34

Costs	(47)
Tax and other	15
2005 Underlying earnings	392
Effect of changes in:	
Prices and exchange rates	454
General inflation	(36)
Volumes	8
Costs	(65)
Tax and other	(7)
2006 Underlying earnings	746

* A reconciliation of the net earnings with underlying earnings for 2004, 2005 and 2006 as determined under EU IFRS is set out on page 39.

Rio Tinto Aluminium is an integrated product group with operations in Australia, New Zealand and the UK. The Comalco name was replaced by Rio Tinto Aluminium in November 2006 to take advantage of the Rio Tinto global brand and reputation.

The Aluminium group's strategy is to maximise shareholder return by committing to excellence in health, safety and environmental performance; maximising value generated from existing assets; and optimising and opportunistically growing the bauxite, alumina and aluminium portfolio. Rio Tinto Aluminium uses its dedicated business improvement programme, called Lean Six Sigma, to solve operational problems, improve process stability and eliminate waste.

The Aluminium group has two operating business units – Mining and Refining, and Smelting. At 31 December 2006, the group accounted for 17 per cent of Rio Tinto's operating assets and in 2006 contributed 14 per cent of the Group's gross sales revenue and ten per cent of its underlying earnings.

Rio Tinto Aluminium employs about 4,300 people. Oscar Groeneveld, chief executive Aluminium, is based in Brisbane, Australia.

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Financial performance

2006 compared with 2005

In 2006, Rio Tinto Aluminium's contribution to the Group's underlying earnings was US$746 million, an increase of 90 per cent. Higher aluminium prices resulted in earnings increasing by US$451 million, with the average aluminium price in 2006 at 116 US cents per pound compared with 86 US cents in 2005.

2005 compared with 2004

Rio Tinto Aluminium's contribution to underlying earnings in 2005 was US$392 million, an increase of 18 per cent. The average aluminium price in 2005 was 86 US cents per pound compared with 78 US cents in 2004 and this led to an increase in earnings of US$106 million. However, the effect of the weakening US currency reduced Aluminium's earnings by US$34 million.

Operations

Mining and refining

Rio Tinto Aluminium has a large, wholly owned bauxite mine at Weipa on Cape York Peninsula, Queensland. A US$150 million expansion in 2004 increased capacity to 16.5 million tonnes per year. This expansion, when combined with recent infrastructure investment, provides the foundation for Weipa to increase annual production to 25 million tonnes.

As at 31 December 2006, mineable reserves of bauxite at Weipa were 1,193 million tonnes. Approximately 90 per cent of the bauxite from Weipa was shipped to alumina refineries at Gladstone, Queensland, and Sardinia, Italy in 2006.

In 2006, Weipa's safety performance was recognised when it received the Minerals Council of Australia's National Minerals Industry Safety and Health Excellence Award (the MINEX Award).

Rio Tinto Aluminium owns the Yarwun alumina refinery (formerly Comalco Alumina Refinery) and 38.6 per cent of Queensland Alumina in Gladstone. Rio Tinto Aluminium sold its 56.2 per cent interest in the Eurallumina refinery in Sardinia, Italy. The sale was effective in October and was in line with Rio Tinto's strategy of selling non core assets.

The Yarwun alumina refinery reached and exceeded nameplate capacity of 1.4 million tonnes per annum in the fourth quarter of 2006, in line with the original development schedule. A two million tonne per annum expansion is under study. There is potential for total capacity to be expanded to over four million tonnes. Most of the refinery's current output goes into Rio Tinto Aluminium smelters; the balance is placed in the traded alumina market. The refinery adds value to the Weipa bauxite deposit and strengthens both Rio Tinto Aluminium's and Australia's positions in the world alumina market.

Rio Tinto Aluminium is continuing to pursue new market opportunities for bauxite and alumina, including participation in China's growing alumina market.

2006 operating performance

Bauxite production at Weipa reached record levels in 2006, at 16.1 million tonnes, four per cent higher than in 2005. This increase was a result of the ongoing ramp up of project NeWeipa, which led to increased production from both the East Weipa and Andoom mines. Weipa bauxite shipments rose by six per cent, to 15.9 million tonnes.

Rio Tinto Aluminium advised its calcined bauxite customers in December 2006 that it would withdraw from the production of calcined bauxite by 2008 after 40 years of providing this product to the abrasives and oil and gas exploration industries. Calcined bauxite represents about one per cent of Weipa's total bauxite production.

Rio Tinto's share of alumina production for 2006 was ten per cent higher than in 2005. This increase was the result of the ramp up at the Yarwun alumina refinery, which produced 1.2 million tonnes, about 400,000 tonnes more than in 2005. Production at Queensland Alumina Limited and Eurallumina (until its sale effective in October) was similar to 2005 levels.

Smelting

Rio Tinto Aluminium's primary aluminium is produced by smelters at Boyne Island (59.4 per cent) near Gladstone, Bell Bay (100 per cent) in Tasmania, Tiwai Point (79.4 per cent) in New Zealand and Anglesey Aluminium (51 per cent) in Wales, UK. Rio Tinto Aluminium also maintains a 42.1 per cent interest in the Gladstone Power Station.

During the year, Rio Tinto Aluminium participated in the Minding the Carbon Store project and, through it, will generate carbon credits for up to one million tonnes of greenhouse gas emissions. This represents about ten per cent of Rio Tinto Aluminium's total emissions, including the emissions from purchased electricity and forms part of Rio Tinto Aluminium's climate change strategy.

Rio Tinto Aluminium continued to invest in the development of drained cathode cell technology in 2006. This new smelter technology has the potential to save ten to 15 per cent of the electricity currently used at Rio Tinto Aluminium smelters. Rio Tinto Aluminium Technology is currently undertaking a demonstration project of the new technology at Bell Bay.

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Rio Tinto Aluminium is exploring opportunities for developing its smelting business. In addition to work being undertaken in the Middle East, it has expressed a strong interest to the Sarawak state and federal governments in Malaysia to build an aluminium smelter based on hydro electricity.

2006 operating performance

Rio Tinto Aluminium's share of aluminium production from its four smelters, at 845,000 tonnes, was slightly below 2005 production levels because of reduced hydro-electricity generation in New Zealand after low inflows. Attributable metal shipments for 2006 were 850,000 tonnes, a decrease of 9,000 tonnes. They went primarily to Japan, Korea, Australia, South East Asia and Europe.

Rio Tinto Aluminium smelters continued to produce at or close to capacity in 2006. Production at Bell Bay, Anglesey Aluminium and Boyne Smelters was consistent with 2005 levels.

Projects

Weipa (Rio Tinto: 100 per cent)

In 2006, Rio Tinto Aluminium commissioned a new US$40 million 26 megawatt power station. The new power station services the mining operation and surrounding communities. A US$60 million second shiploader was commissioned in the fourth quarter to ensure reliability of bauxite supply to customers.

To meet the needs of increased trade of bauxite and alumina, Rio Tinto Marine committed US$120 million to the purchase of three new post Panamax bulk ore carriers to be used primarily on the Weipa to Gladstone run. The first ship will be delivered in the third quarter of 2007.

Yarwun (Rio Tinto: 100 per cent)

Rio Tinto Aluminium continues to study the expansion of the Yarwun alumina refinery, formerly Comalco Alumina Refinery, in Gladstone to meet the growing needs of its own smelters and to supply growing demand, particularly from China and the Middle East.

Abu Dhabi aluminium smelter (Rio Tinto: 50 per cent)

In 2006, Rio Tinto Aluminium signed a preliminary agreement with General Holding Corporation of Abu Dhabi to undertake a feasibility study into construction of an aluminium smelter in the United Arab Emirates.

Development could result in a smelter with a first stage production capacity of 550,000 tonnes of metal per year. A company, Abu Dhabi Aluminium Company (Adalco) has been formed to manage the joint venture. With its abundant gas resources, the Middle East is fast becoming a key region in the global aluminium industry.

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COPPER GROUP

Mined ***Copper***	Rio Tinto share 000 tonnes
2002	887
2003	867
2004	753
2005	784
2006	803

Gold	000 ounces
2002	3,135
2003	2,731
2004	1,552
2005	1,726
2006	1,003

Refined ***Copper***	Rio Tinto share 000 tonnes
2002	417
2003	349
2004	333
2005	314
2006	299

Underlying earnings contribution*	**US$m**
2004	860
2005	2,020
2006	3,562

Changes in underlying earnings 2004 - 2006	**US$m**
2004 Underlying earnings	860
Effect of changes in:	
Prices and exchange rates	629
General inflation	(26)
Volumes	696
Costs	(130)

Tax and other	(9)
2005 Underlying earnings	2,020
Effect of changes in:	
Prices and exchange rates	1,707
General inflation	(28)
Volumes	(179)
Costs	(205)
Tax and other	247
2006 Underlying earnings	3,562

* A reconciliation of the net earnings with underlying earnings for 2004, 2005 and 2006 as determined under EU IFRS is set out on page 39.

Rio Tinto's Copper group comprises Kennecott Utah Copper in the US and interests in the copper mines of Escondida in Chile, Grasberg in Indonesia, Northparkes in Australia, Palabora in South Africa, and the Resolution Copper project in the US. The group also has management responsibility for Kennecott Minerals Company in the US. Since the beginning of 2006, the group acquired the La Granja project in Peru and took an ownership stake in Ivanhoe Mines and Northern Dynasty Minerals which have the Oyu Tolgoi and Pebble deposits in Mongolia and the US respectively.

Historically, the Copper group built the majority of its portfolio through acquisitions (Kennecott) or joint ventures (Escondida, Grasberg) followed by expansions. The current pipeline of projects (Oyu Tolgoi, Resolution, La Granja and Pebble) represents a transition with a greater proportion of opportunities created through exploration and acquisitions at an early stage of development. In addition to the Copper group's interests in these four world class deposits, the group is developing the E48 underground deposit at Northparkes and undertaking a prefeasibility study at Kennecott Utah Copper to extend the mine's life, either through a further pushback of the open pit or a transition to underground mining.

The Copper group's long term development plans are not just confined to its principal product. Rio Tinto has a number of nickel development opportunities which are currently being evaluated. At the small, high grade Eagle nickel deposit (Rio Tinto: 100 per cent) in Michigan in the US, feasibility studies have been undertaken and a decision on developing the deposit is expected in 2007.

At 31 December 2006, the Copper group, which also produces gold and molybdenum as significant coproducts,

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accounted for 16 per cent of the Group's operating assets and in 2006 contributed approximately 28 per cent of Rio Tinto's gross sales revenue, of which 74 per cent was from copper, 13 per cent from molybdenum and the remainder mostly from gold. It accounted for 49 per cent of underlying earnings in 2006.

Bret Clayton succeeded Tom Albanese as chief executive Copper, and is based in London.

Financial performance

2006 compared with 2005

The Copper group's contribution to underlying earnings was US$3,562 million, US$1,542 million higher than in 2005. The average price of copper was 306 US cents per pound during 2006, 84 per cent higher than in 2005. The average gold price of US$602 per ounce increased by 36 per cent. The average price of molybdenum was US$24.60 per pound compared with US$30.70 per pound in 2005.

Kennecott Utah Copper's contribution to underlying earnings of US$1,804 million was US$767 million higher than in 2005, with the operation benefiting from higher prices and volumes and a tax credit of US$289 million following recognition of deferred tax assets. Record molybdenum production was achieved during the year, offsetting the impact of lower refined copper production due to a scheduled smelter shutdown in the second half of 2006. An increase in the group's long term copper price assumption triggered an assessment of the amount of recoverable copper at Kennecott Utah Copper. As a result, the impairment made in 2001 and 2002 was reversed in 2006.

Rio Tinto's share of underlying earnings from Escondida increased by US$648 million to US$1,250 million. Higher prices and the commencement of sulphide leaching counterbalanced higher mining costs and input prices.

The Grasberg joint venture contributed US$122 million to underlying earnings, US$110 million below 2005. Lower grades of copper, gold and silver, the result of mine sequencing, led to significantly lower production of all three metals.

Palabora's 2006 earnings of US$52 million were US$33 million above the prior year, benefiting from higher copper prices and sales volumes and the sale of some smelter stocks.

Northparkes' contribution to underlying earnings of US$229 million represents a US$172 million increase from 2005. In addition to higher prices, better grades, increased throughput and improved recoveries all contributed to a 54 per cent increase in production of copper contained in concentrates.

Kennecott Minerals' 2006 earnings of US$105 million were US$32 million above 2005. The effect of higher gold and zinc prices and the recognition of a US$14 million deferred tax asset were offs et by higher costs and lower sales volumes from Cortez, due to lower grades.

2005 compared with 2004

The Copper group's contribution to underlying earnings was US$2,020 million, US$1,160 million higher than in 2004. The average price of copper was 166 US cents per pound compared with 130 US cents in 2004. The average price of molybdenum was US$30.70 per pound compared with US$14.60 in 2004. The average gold price of US$444 per ounce increased by nine per cent.

Kennecott Utah Copper's contribution to underlying earnings was US$1,037 million, compared with US$311 million in 2004. Molybdenum production increased significantly as a result of the refocusing of the mine plan in response to significantly higher molybdenum prices.

Rio Tinto's share of underlying earnings from Escondida increased by US$196 million to US$602 million. Mined production of copper was up five per cent.

The underlying earnings contribution from the Grasberg joint venture increased by US$200 million to US$232 million chiefly as a result of the continuation of full production after the material slippage in October 2003.

Palabora recorded a profit of US$19 million in 2005, helped by improved performance of underground production. Northparkes' copper production was 80 per cent above the previous year due to the successful ramp up of Lift 2. Kennecott Minerals lower sales volumes were due to lower grades at Cortez.

Operations

Kennecott Utah Copper (Rio Tinto: 100 per cent)

Kennecott Utah Copper (KUC) operates the Bingham Canyon mine, Copperton concentrator and Garfield smelter and refinery complex, near Salt Lake City, US. KUC is a polymetallic mine, producing copper, gold, molybdenum and silver. As the second largest copper producer in the US, KUC supplies more than 17 per cent of the nation's annual refined copper requirements and it employs approximately 1,700 people.

2006 operating performance

KUC continued to demonstrate operating flexibility by delivering record molybdenum production during a period of exceptionally high prices. Employing Rio Tinto's *Improving performance together* (IPT) methodology, KUC substantially improved its knowledge of molybdenum mineralisation in the orebody to optimise molybdenum production, which was eight per cent higher than 2005.

In July, a pebble crushing facility was commissioned at the concentrator. Final modifications to this circuit will

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be completed in 2007, leading to a projected increase in plant throughput of approximately 18 per cent. A capital investment of US$82 million was approved in October, to expand and modernise the bulk flotation circuit at the concentrator. This project is expected to increase recoveries of copper, molybdenum and gold and improve concentrate grade, thereby benefiting smelter throughput rates. The scheduled completion of this pr oject is mid 2008 with full production benefits realised by 2009.

The Garfield smelter was shut down in September for planned maintenance work and was re-commissioned in early November. The interruption reduced refined copper production by six per cent, compared with 2005. Smelter throughput rates following the shutdown are exceeding initial expectations.

Current ore reserves will support open pit operations until 2019. Prefeasibility studies continued during the year to evaluate alternatives for extending the mine's life beyond 2019. The alternatives include additional open pit pushbacks and/or underground mining options. KUC intends to dewater and rehabilitate an existing mine shaft in 2007 to provide access for an underground drilling programme to augment these studies.

Principal operating statistics at KUC 2004-2006

	2004	2005	**2006**
Rock mined ('000 tonnes)	129,196	140,906	**145,343**
Ore milled ('000 tonnes)	45,712	46,664	**47,857**
Head grades:			
Copper (%)	0.63	0.53	**0.63**
Gold (g/t)	0.29	0.37	**0.49**
Silver (g/t)	3.04	3.23	**3.50**
Molybdenum (%)	0.033	0.058	**0.057**
Copper concentrates produced ('000 tonnes)	1,106	881	**1,019**
Production of metals in copper concentrates			
Copper ('000 tonnes)	263.7	220.6	**265.6**
Gold ('000 ounces)	308	401	**523**
Silver ('000 ounces)	3,584	3,958	**4,214**
Molybdenum concentrates produced ('000 tonnes)	12.9	29.5	**30.2**
Contained molybdenum ('000 tonnes)	6.8	15.6	**16.8**
Concentrate smelted on site ('000 tonnes)	1,098	1,042	**918**
Production of refined metals			
Copper ('000 tonnes)	246.7	232.0	**217.9**
Gold ('000 ounces)	300	369	**462**
Silver ('000 ounces)	3,344	3,538	**4,152**

Grasberg joint venture (Rio Tinto: 40 per cent)

Grasberg, in Papua, Indonesia, is one of the world's largest copper and gold mines in terms of reserves and production. It is owned and operated by Freeport Indonesia (PTFI), the principal and 91 per cent owned subsidiary of the US based Freeport-McMoRan Copper & Gold Inc. (FCX).

In meeting the mine's social obligations to local communities, at least one per cent of Grasberg's net sales revenues are committed to support village based programmes. In addition, two trust funds were established in 2001 in recognition of the traditional land rights of the local Amungme and Komoro tribes. In 2006, PTFI contributed US$43.9 million (net of Rio Tinto portion) and Rio Tinto US$3.6 million in total to the funds.

As a result of training and educational programmes, Papuans represented more than a quarter of PTFI's approximately 9,000 strong workforce by the end of 2006.

2006 operating performance

Rio Tinto's share of metal production is dependent on the metal strip, which determines the allocation of volumes between the joint venture partners. Owing to lower grades, Rio Tinto's share of production from the Grasberg

mine was constrained in 2006 and owing to adjustments to the mine schedule, will continue to show significant variation year to year. After 2021, Rio Tinto shares 40 per cent of total production as the metal strip ceases.

PTFI, as manager, recently completed an analysis of its longer range mine plans to assess the optimal design of the Grasberg open pit and the timing of development of the Grasberg underground block cave ore body. The revised long range plan includes changes to the expected final Grasberg open pit design which will result in a section of high grade ore previously expected to be mined in the open pit to be mined in the Grasberg underground block cave mine. The revised mine plan reflects a transition from the Grasberg open pit to the Grasberg underground block cave ore body in mid 2015. The mine plan revisions alter the timing of metal production in the period of 2015 and beyond but do not have a significant effect on ultimate recoverable reserves.

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Principal operating statistics for PTFI 2004-2006

	2004	2005	**2006**
Ore milled (□000 tonnes)	67,750	78,907	**83,716**
Head grades:			
Copper (%)	0.87	1.13	**0.85**
Gold (g/t)	0.88	1.65	**0.85**
Silver (g/t)	3.85	4.88	**3.84**
Production of metals in concentrates			
Copper (□000 tonnes)	516.4	793.9	**610.8**
Gold (□000 ounces)	1,584	3,546	**1,880**
Silver (□000 ounces)	5,037	7,531	**5,609**

Escondida (Rio Tinto: 30 per cent)

The low cost Escondida copper mine in Chile is one of the largest copper mines in the world in terms of annual production, and has a mine life expected to exceed 30 years. It accounts for approximately eight per cent of world primary copper production. BHP Billiton owns 57.5 per cent of Escondida and is the operator and product sales agent.

The Escondida district hosts two of the largest porphyry copper deposit systems in the world □ Escondida and Escondida Norte, located five kilometres from Escondida. A sulphide leach project was complete d during the year with the first cathode being produced in June. During August, operations were affected by strike action over wage negotiations. Operations resumed in September after a new three year contract was settled.

Escondida employs approximately 2,900 people.

2006 operating performance

Escondida□s mined copper production was three per cent higher than in 2005, with higher grades and the commencement of sulphide leaching more than offsetting the effects of the strike action. Cathode production was seven per cent lower than in 2005 due to lower grade oxide ore.

Principal operating statistics at Escondida 2004-2006

	2004	2005	**2006**
Rock mined (□000 tonnes)	377,356	359,569	**338,583**
Ore milled (□000 tonnes)	82,378	86,054	**84,158**
Head grade:			
Copper (%)	1.51	1.53	**1.59**
Production of metals in concentrates			
Copper (□000 tonnes)	1,046	1,127	**1,122**
Gold (□000 ounces)	217	183	**170**
Silver (□000 ounces)	5,747	6,565	**6,646**
Copper cathode (□000 tonnes)	152.1	143.9	**134.4**

Palabora (Rio Tinto: 57.7 per cent)

Palabora Mining Company (Palabora) is a publicly listed company on the Johannesburg Stock Exchange and operates a mine and smelter complex in South Africa.

Palabora developed a US$465 million underground mine with a current planned production rate of at least 32,000 tonnes of ore per day. Approximately 663,500 tonnes of copper are expected to be produced over the remaining life of the mine.

Palabora supplies most of South Africa□s copper needs and exports the balance. It employs approximately

2,000 people and labour agreements are negotiated annually.

2006 operating performance

Palabora recorded a net profit of US$52 million in 2006, US$33 million higher than 2005. Underground production for the year averaged 30,200 tonnes per day, which is ten per cent higher than 2005.

Production rates peaked in the last week of December at 36,562 tonnes per day. The average annual production fell short of the planned target of 32,000 tonnes per day as a result of breakdown and maintenance problems. The average ore grade was 0.71 per cent compared with 0.72 per cent in 2005.

During the first quarter of 2006, Palabora□s reverberatory furnace, which has been in operation for over 40 years, was subjected to its eighth rebuild, the last having occurred in 2000. A ten per cent increase in capacity is expected from the rebuild, taking the overall operational capacity to 110,000 tonnes per annum.

As part of the decision to build the magnetite business using current production, Palabora entered into a supply contract with Minmetals for the supply of two million tonnes of magnetite concentrate per annum starting in October 2006.

As a result of mine production shortfalls and lower grades, concentrate production was supplemented by purchases of concentrate material to optimise smelter throughput. Palabora will continue to purchase concentrates to

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supplement the smelter as capacity exceeds the mine output.

Vermiculite revenue of US$40 million increased by five per cent on 2005. Production in 2006 was down by six per cent compared with 2005, and the strong market demand for the coarser grades continues to exceed production in all market segments.

Palabora's lending facilities and hedge contracts, which were finalised in September 2005 as part of a refinancing project, were closely monitored during 2006. Forward pricing contracts, representing 62.5 per cent of the budgeted underground production up to 2008, and 30 per cent up to 2013, are in place.

Principal operating statistics at Palabora 2004-2006

	2004	2005	**2006**
Ore milled ('000 tonnes)	8,657	9,536	**10,730**
Head grade:			
Copper (%)	0.74	0.72	**0.71**
Copper concentrates produced ('000 tonnes)	187.7	197.1	**208.9**
Contained copper ('000 tonnes)	54.4	61.2	**61.5**
New concentrates smelted on site ('000 tonnes)	253.4	304.4	**288.5**
Refined copper produced ('000 tonnes)	67.5	80.3	**81.2**

Northparkes (Rio Tinto: 80 per cent)

Rio Tinto's interest in the Northparkes copper-gold mine in central New South Wales, Australia, resulted from the acquisition of North Ltd. Northparkes is a joint venture with the Sumitomo Group (20 per cent).

Following an initial open pit operation at Northparkes, underground block cave mining has been undertaken since 1997. In November 2006, the joint venture partners approved the development of the E48 block cave project, which is expected to cost US$160 million (Rio Tinto share: US$127 million) and extend the mine's life until 2016. The project is a state of the art development incorporating experience and know how from the previous two block cave projects. The E48 block cave will progressively replace the current block cave from 2009, and output from E48 will be processed in the existing concentrator and transported by rail to Port Kembla for export.

The copper concentrate produced is shipped under long term contracts that provide for periodic negotiation of certain charges, as well as spot sales, to smelters in Japan (74 per cent), China (13 per cent), and India (13 per cent). Northparkes employs approximately 220 people.

2006 operating performance

Northparkes achieved a solid performance during 2006, with production of concentrate up 40 per cent from 2005 due to increased grades, milling rates and recoveries.

Principal operating statistics at Northparkes 2004-2006

	2004	2005	**2006**
Ore milled ('000 tonnes)	5,008	5,453	**5,789**
Head grade:			
Copper (%)	0.79	1.12	**1.53**
Gold (g/t)	0.66	0.46	**0.64**
Production of contained metals			
Copper ('000 tonnes)	30.0	54.0	**83.3**
Gold ('000 ounces)	79.4	57.0	**94.7**

Kennecott Minerals (Rio Tinto: 100 per cent)

Kennecott Minerals in the US manages the Greens Creek mine (Rio Tinto: 70 per cent) on Admiralty Island in

Alaska which produces silver, zinc, lead and gold. The Rawhide mine (Rio Tinto: 51 per cent) in Nevada produces gold and silver by leaching since mining operations ceased in 2002. Reclamation work is well advanced. Kennecott Minerals also owns the group's interest in the Cortez joint venture (Rio Tinto: 40 per cent), also in Nevada.

Kennecott Minerals employs approximately 322 people, excluding employees of non managed operations.

2006 operating performance

Underlying earnings of US$105 million were US$32 million higher than 2005 underlying earnings, reflecting the strong price environment for gold, silver, zinc and lead.

At Greens Creek, production was affected by a major rehabilitation programme at the mine. Mill throughput is expected to increase in 2007 following the substantial completion of the project in 2006.

In 2006 there was a dramatic but expected decline in Cortez production due to the move into the final lower grade stages of the Pipeline orebody. While production is expected to increase in 2007, it will remain below the levels experienced when mining the best Pipeline ore zones. Production is expected to increase in 2009 when production from Cortez Hills is planned to commence.

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Projects

Resolution (Rio Tinto: 55 per cent)

The Resolution project is situated in Arizona, US, in the area of the depleted Magma (Superior) copper mine. The project team is currently working through a prefeasibility study, including a proposed land exchange, an environmental impact study, further deposit definition drilling and the sinking of two shafts to gain access to the mineralisation. Expenditure to the end of feasibility in 2011, if approved, is expected to be approximately US$700 million, with total capital to initiate production forecast to be about US$2.5 billion. While there are technical challenges with regard to depth and rock temperature, we believe that Resolution could become a leading global copper producer over several decades.

The Act supporting a land exchange programme was introduced in the Senate and House of Representatives during 2006, but the timing did not allow the Act to progress to point of Presidential signature. It will be re-introduced in both Houses in early 2007.

Oyu Tolgoi (Rio Tinto: 9.9 per cent stake in Ivanhoe Mines)

Rio Tinto acquired a 9.9 per cent holding of Ivanhoe Mines in order to jointly develop and operate Ivanhoe□s Oyu Tolgoi copper-gold complex in Mongolia□s South Gobi region. A joint Ivanhoe-Rio Tinto technical committee will engineer, construct and operate the project.

Subject to reaching a satisfactory long term investment agreement with the Mongolian government, an open pit mine is expected to be in operation by the end of the decade followed by an underground mine several years later. Rio Tinto□s holding in Ivanhoe Mines is expected to rise to 19.9 per cent upon completion of the long term investment agreement. The Group has an option to increase its stake in due course to 33.35 per cent, and potentially take it up to 40 per cent via open market transactions.

As part of the investment arrangements, Ivanhoe Mines has agreed with Rio Tinto to divest its joint venture interest in the Myanmar Copper Project located in the Union of Myanmar, together with any other rights, interests or investments relating to the country. Pending their sale, the Myanmar based assets have, in accordance with the terms of the agreement between Rio Tinto and Ivanhoe Mines, been transferred to an independent third party trust, the sole purpose of which is to sell the assets. Ivanhoe Mines has no interest in the trust, other than as an unsecured creditor under a promissory note issued by trust on the transfer of the Myanmar based assets (which is to be repaid once the assets are sold).

La Granja (Rio Tinto: 100 per cent)

Rio Tinto won the state privatisation tender for the La Granja copper project, located in the Cajamarca region of northern Peru. The bid comprised staged payments to the Peruvian government of US$22 million and US$60 million in investment in exploration and feasibility work. In late 2006, Rio Tinto approved expenditure up to US$95 million, most of which is expected to be spent over 2007□2009. The La Granja project is technically challenging and has modest copper grades. However, the deposit contains significant mineralisation of more than two billion tonnes.

Instead of looking at La Granja as a conventional milling operation producing concentrates for export, the prefeasibility study is aimed at demonstrating the possibility of recovering copper metal using bioleaching and electrowinning.

Pebble (Rio Tinto: 19.8 per cent stake in Northern Dynasty Minerals)

Rio Tinto acquired a 9.9 per cent interest in Northern Dynasty Minerals during the year and increased its interest to 19.8 per cent during February 2007. Northern Dynasty Minerals is advancing the Pebble copper-gold-molybdenum deposit in southwestern Alaska, which is another world class ore body that is amenable to block caving.

Cortez Hills (Rio Tinto: 40 per cent)

Rio Tinto holds a 40 per cent interest in the Cortez joint venture, with Barrick Gold managing the joint venture and holding the remaining 60 per cent interest. The operation is located in north-eastern Nevada, US, and contains total proven and probable reserves of 7.5 million ounces; this includes the Cortez Hills deposit discovered in 2003.

Eagle (Rio Tinto: 100 per cent)

The Eagle project is a high grade nickel deposit located in Michigan, US. Kennecott Minerals has carried out a project feasibility study. Permitting approvals are under way while exploration continues in the area around Eagle and the wider district. A decision on developing the deposit is expected in 2007.

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DIAMONDS GROUP

Mined ***Diamonds***	**Rio Tinto share 000 carats**
2002	33,620
2003	33,272
2004	25,502
2005	35,635
2006	35,162

Underlying earnings contribution*	**US$m**
2004	188
2005	281
2006	205

Changes in underlying earnings 2004 - 2006	**US$m**
2004 Underlying earnings	188
Effect of changes in:	
Prices and exchange rates	46
General inflation	(5)
Volumes	89
Costs	(18)
Tax and other	(19)
2005 Underlying earnings	281
Effect of changes in:	
Prices and exchange rates	12
General inflation	(8)
Volumes	(100)
Costs	(10)
Tax and other	30
2006 Underlying earnings	205

* A reconciliation of the net earnings with underlying earnings for 2004, 2005 and 2006 as determined under EU IFRS is set out on page 39

The Diamonds group comprises Rio Tinto's 60 per cent interest in the Diavik Diamonds mine located in the Northwest Territories of Canada, the wholly owned Argyle mine in Western Australia, Rio Tinto's 78 per cent interest in the Murowa mine in Zimbabwe and diamond sales and representative offices in Antwerp, Belgium, and Mumbai, India. It also includes new teams established in 2006 with responsibility for business development, product security and the development and transfer of best practice across the group.

The group has enjoyed strong growth over the past five years as Diavik has been brought to full production and Murowa has been added to the portfolio and as the Argyle product has benefited from improved pricing. Over the past five years, sales revenues and underlying earnings have tripled. This has positioned Diamonds as a strong contributor to Rio Tinto overall.

Within the industry, the Diamond group is well positioned as a leading supplier to the market, with a clear focus on the upstream portion of the value chain. Rio Tinto's exploration programme has been successful in discovering new assets for Diamonds to develop, and a differentiated approach to marketing has enabled the capture of higher prices. The group's strategy is to compete in the diamond business and strive to build further

value. The focus is on the mining, recovery and sale of rough diamonds. In keeping with Rio Tinto's values, the Diamonds group is a leading proponent of a number of programmes and partnerships that help improve social and environmental standards of partners, suppliers and customers.

Rio Tinto sells diamonds from all three operations through its marketing arm, Rio Tinto Diamonds, according to a strict chain of custody process, ensuring all products are segregated according to mine source.

At the end of 2006 Diamonds employed 1,500 people and had 930 contractors.

The Diamonds group was combined with the Industrial minerals group with effect from 1 June 2007, to form the Diamonds and Minerals group. Keith Johnson, based in London, who had been chief executive Diamonds, became Group executive Business Resources; and, Andrew Mackenzie, based in London, became chief executive Diamonds and Minerals.

Financial performance

2006 compared with 2005

Diamonds contributed US$205 million to Rio Tinto's underlying earnings in 2006, a decrease of US$76 million from 2005. Sales revenue for 2006 was US$838 million, US$238 million lower than in 2005. The lower earnings and sales revenue arose mainly from a downturn in the rough diamond market in the second half of 2006. This resulted in lower

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prices for most product types, with Rio Tinto Diamonds stocking some lower priced product, which will be sold in future periods.

Diamond production remained at similar levels to 2005 across all operations. Argyle produced 29.1 million carats in 2006, approximately 1.4 million carats less than in 2005. This was in line with expectations of a decreasing diamond production profile as the open pit winds down and underground production ramps up over the next five years. Diavik produced 5.9 million carats in 2006, 0.9 million carats more than in 2005. Murowa produced 0.2 million carats in 2006, slightly less than in 2005.

The rough diamond market started strong in the first half of 2006 but deteriorated into the second half. Year end prices closed at similar levels to the start of 2006. A number of factors influenced this mid year correction including a congested processing pipeline, tight liquidity in the manufacturing sector and extensive flooding in India's major cutting centre, Surat, which forced the shutdown of many cutting and manufacturing centres for several weeks.

Polished diamond prices remained constant through 2006 with reasonable demand experienced for most products, particularly for larger better quality white diamonds.

2005 compared with 2004

Diamonds contributed US$281million to underlying earnings, an increase of US$93 million from 2004, assisted by a strong diamond market and the solid performance by Argyle, Diavik and Murowa.

The rough diamond market remained strong for most of 2005 with the Rio Tinto product offering in great demand. Seasonal softening toward the end of the year was mainly due to holidays and festivals in the key customer markets.

Prices for polished diamonds increased in 2005, with the majority of gains made in the first half of the year. Strongest demand was seen in the product types in shortest supply. This included large diamonds greater than two carats in size with better colour and quality, and the smaller diamond segments.

Operations

Argyle Diamonds (Rio Tinto: 100 per cent)

Rio Tinto owns and operates the Argyle diamond mine in Western Australia. Production from Argyle's AK1 open pit mine is expected to continue until 2012. From 2009 the mine is expected to gradually transition to underground operations which would extend the life of the mine to about 2018.

2006 operating performance

Despite tight mining conditions in the deepening and geotechnically challenging open pit, the operation maintained production and plant throughput in 2006, producing 29.1 million carats in 2006 compared with 30.5 million carats in 2005.

Commencing in 2006, underground safety performance was separated from that of the open pit section. Although the aggregate 2006 safety performance was only slightly better than in 2005, the open pit operation achieved exceptional performance with lost time injury frequency rate down by over 300 per cent.

Argyle celebrated the signing of a Participation Agreement with neighbouring communities in June 2005 and has spent the last 18 months implementing the terms of the agreement.

Diavik Diamonds (Rio Tinto: 60 per cent)

Construction of Diavik was completed in 2003 with production first commencing in January 2003. Since then the project has exceeded expectations and is now focused on further improving value recovery and business excellence, and planning for the integration of the A418 open pit.

Safety performance in 2006 was considerably better than 2005, with the lost time injury frequency rate down by almost half and the all injury rate down by a third.

In 2006 total cumulative spending since 2000 on local purchasing with northern Aboriginal businesses surpassed the C$1 billion mark.

2006 operating performance

Diavik produced more carats in 2006 than in any other previous year, thanks to higher ore grade, excellent

operational performance throughout the year and ore blending strategies employed to maximise process plant throughput.

This was achieved during a massive winter road recovery operation. Freight and construction materials scheduled for trucking to the mine up the 2006 winter road could not be transported on surface due to a shorter season of cold winter conditions necessary for maintenance of the ice road. The recovery operation included the air lifting of fuel, bentonite, explosives and consumables to site.

Open pit mining is expected to be predominantly from A154 in 2007 with some A418 open pit ore commencing in 2008.

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Murowa (Rio Tinto: 77.8 per cent)

Production at Murowa commenced in late 2004 after US$11 million was spent on constructing a 200,000 tonnes per year plant and supporting infrastructure. Chain of custody safeguards put in place at the commencement of production have performed without incident.

Murowa's 2006 safety performance was exceptional with no lost time injuries reported in 2006 and the all injury frequency rate down by more than 80 per cent.

2006 operating performance

A start was made on upgrading the 200,000 tonnes per year processing plant to increase throughput, improve recoveries and protect against power outages. The modification was completed during April 2007 and is expected to give Murowa several more years of operation. Worsening power outages are impacting production and this situation is not expected to improve until August 2007 when a new generator is expected to be operational.

Projects

Argyle (Rio Tinto: 100 per cent)

Rio Tinto approved the development of an underground block cave mine under the AK1 open pit in late 2005. It also approved an open pit cutback on the Northern Bowl to facilitate the transition from open pit to underground mining. The capital cost of the underground mine is expected to be US$760 million, and the cutback US$150 million.

Construction started in February 2006. By the end of 2006, 10,600 metres of underground development in four main access declines had been completed. In late 2006 the first of the underground declines reached the required depth for ore extraction. The underground block cave undercut is expected to be initiated on schedule in 2008.

Diavik (Rio Tinto: 60 per cent)

In late 2004 the joint venture approved a study of the feasibility of underground mining of the A154N, A154S and A418 kimberlites. This study includes the development of a 3.3 kilometre exploratory decline, at an estimated cost of US$75 million.

In 2006 a three phase underground development funding model, totalling some US$265 million, was approved. If underground mining is given the go ahead, the first ore is planned to be extracted in 2008.

Meanwhile, a US$190 million project, involving the construction of a dyke round the A418 kimberlite to allow open pit mining beneath the lake bed, is well advanced. The construction and dewatering of the dyke was completed in 2006 and pre-stripping began in December. The A418 ore is softer than that of the A154 pipes and will allow ore blending strategies to maintain the high process plant throughput achieved in 2006. The first ore from the A418 open pit is scheduled to be mined in late 2007 and will continue through to 2012.

About two kilometres south of the A154 pipes, under the waters of Lac de Gras, is the A21 kimberlite pipe. It does not currently form part of the Diavik ore reserve or mine plan as little is known about the value of the diamonds it holds. A feasibility study into open pit mining, which includes the development of an exploratory decline, is now in hand. At the end of 2006, the decline had reached the kimberlite, and bulksampling results are expected in the first quarter of 2007. The study is scheduled for completion in 2007, at which time it will be decided whether the A21 kimberlite should be included in reserves, but ore extraction would not start until 2012.

Murowa (Rio Tinto: 77.8 per cent)

Murowa commenced studies in mid 2006 to determine whether to expand the mine.

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OTHER OPERATIONS

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 around 53 per cent of the remaining undeveloped land in Utah's Salt Lake Valley. Approximately 16,000 hectares of the 37,200 hectares owned is developable land and is all within 20 miles (32km) of downtown Salt Lake City.

The initial Daybreak community encompasses 1,800 hectares and is entitled to develop nearly 14,000 residential units and nine million square feet of commercial space. Kennecott Land develops the required infrastructure and prepares the land for sale to home builders. The project is well advanced, with over 1,200 home sales completed since opening in June 2004. At full build out, the community will house 30,000 to 40,000 residents. Revenues in 2006 were US$60 million.

Kennecott Land is in the process of securing development rights from Salt Lake County for the remaining landholdings. Current development potential for this land is in excess of 150,000 residential units and 50 million square feet of commercial space. Securing entitlement is a long term public process that will culminate in a plan being submitted for approval by the Salt Lake County Council in the next one to two years.

Sari Gunay (Rio Tinto: 70 per cent)

Rio Tinto has carried out exploration and project evaluation in Iran since 2000. Preliminary results from the Sari Gunay gold project in Western Iran have indicated the potential for a medium sized low grade oxide resource. Following successful geostatistical and infill drilling programme in 2004, a feasibility study, including further evaluation drilling and metallurgical testwork, has been completed. Rio Tinto is currently evaluating its options for Sari Gunay.

MARKETING

Marketing and sales of the Group's various metal and mineral products are handled either by the specific business concerned, or in some cases are undertaken at a product group level.

In 2006, Rio Tinto established a small central marketing team based in London to develop and share leading marketing practices across the Group. The team supports the Group's businesses by helping to identify new ways of adding value in meeting customers' needs.

Rio Tinto has numerous marketing channels, which include electronic market places, with differing characteristics and pricing mechanisms depending on the nature of the commodity and markets being served.

Rio Tinto's businesses contract their metal and mineral production direct with end users under both short and long term supply contracts. Long term contracts typically specify annual volume commitments and an agreed mechanism for determining prices at prevailing market prices. For example, businesses producing non ferrous metals and minerals reference their sales prices to the London Metal Exchange (LME) or other metal exchanges such as the Commodity Exchange Inc (Comex) in New York.

Ocean freight

Ocean freight has become an important part of Rio Tinto's marketing. It is managed by Rio Tinto Marine, which is based in Melbourne. In 2006, Rio Tinto Marine handled 70 million tonnes of dry bulk cargo, a significant increase on the 51 million tonnes transported in 2005.

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 enterprise value from its freight by creating competitive advantage for the Group's products rather than by trading freight.

Rio Tinto Marine sets and maintains the Group's HSE and vessel assurance standards for freight and is one of three equal shareholders in Rightship, a ship vetting specialist, promoting safety and efficiency in the global maritime industry.

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EXPLORATION GROUP

Rio Tinto Exploration seeks to discover or identify mineral deposits that will contribute to the growth of the Rio Tinto Group. The discovery of new deposits is essential to replace reserves as they are mined, to provide new opportunities for growth, and to help meet the increasing global demand for minerals and metals.

The Exploration group is opportunistic in approach and its resources are deployed on projects that show the best chance of delivering a world class deposit to Rio Tinto. Exploration maintains close dialogue with product groups to ensure that strategies and project portfolios are closely aligned.

Mineral exploration is a high risk activity. Rio Tinto's statistics show that an average of only one in 350 mineral prospects that are drill tested result in a mine for the Group. Rio Tinto believes in having a critical mass of projects, selected through a rigorous process of prioritisation.

The Exploration group is organised into five geographically-based teams in North America, South America, Australasia, Asia and Africa/Europe and a sixth project generation team that searches the world for new opportunities and provides specialised geological, geophysical and commercial expertise to the regional teams. The Asia team was formed in 2006, reflecting a significant expansion in exploration effort in Russia, Mongolia and the FSU. Industrial minerals exploration, previously a separate team, has been integrated into the regional teams and project generation.

At the end of 2006, Rio Tinto was exploring in over 35 countries for a broad range of commodities including copper, diamonds, nickel, industrial minerals, bauxite, uranium, iron ore and coal. Exploration employs about 180 geoscientists around the world and has a total complement of approximately 900 people.

Eric Finlayson was appointed head of Exploration, based in London, from January 2007, succeeding Tom Albanese, director, Group Resources, who became chief executive of Rio Tinto from May 2007.

Financial performance

2006 compared with 2005

Cash expenditure on exploration in 2006 was US$345 million, an increase of US$81 million over 2005, reflecting an increase in contractor costs, the high quality of projects in the Exploration pipeline and acceleration of evaluation on significant projects. The pre-tax charge to underlying earnings was US$237 million, due to the sale of Ashton Mining of Canada shares and various other interests during 2006.

2005 compared with 2004

Cash expenditure on exploration in 2005 was US$264 million and the pre-tax charge to underlying earnings was US$250 million, a US$60 million increase over 2004, reflecting a further increase in iron ore exploration in Western Australia, the growth of high quality projects in the Exploration pipeline and acceleration of evaluation on significant projects by product groups during the year.

Operations

2006 operating performance

Since 2001 six projects have moved from Exploration to the next stage of project evaluation including Resolution (copper, US), Potasio Rio Colorado (potash, Argentina) and Simandou (iron ore, Guinea). Last year, five iron ore deposits in the Pilbara were transferred to the product group evaluation team.

Rio Tinto also conducts near mine exploration around a number of operations. Where additional mineralisation has supplemented reserves or new mineralisation has been discovered this has been reported by the relevant product group.

Exploration in 2006 focused on advancing the most promising targets across the spectrum of grassroots and near mine programmes. Encouraging results were obtained from a number of locations.

Order of magnitude studies are in progress at the Chapudi project (coal, South Africa) and the Bunder project (diamonds, India).

Negotiations continue on a Contract of Work for the La Sampala project (nickel, Indonesia) with the Government of Indonesia.

During 2007 projects in Mozambique and Serbia (industrial minerals), Brazil (bauxite), Colombia (coal), and

the US (coal and nickel) are expected to commence order of magnitude studies to assess their economic potential for advancement to pre-feasibility study.

Diamond exploration continues, focused in Canada, southern Africa, Mauritania, Brazil and India. Work commenced in Mali. A number of kimberlite pipes were discovered and follow up test work is in progress to assess economic potential.

Copper exploration continued in Turkey, Kazakhstan, Peru, Chile, Argentina, Mexico and the US and in Russia under the RioNor joint venture with Norilsk Nickel. Drilling encountered significant copper mineralisation in Chile, Kazahkstan and the US, warranting further follow up drill testing.

Exploration focus on the bulk commodities, iron ore, coal and bauxite continued in 2006. Drilling progressed on bauxite projects in Brazil. Thermal and coking coal projects were drill tested in the US, Canada, southern Africa,

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Colombia and Mongolia. Results in all countries are encouraging and work is continuing in 2007. Iron ore exploration continued in west Africa and further iron ore deposits in the Pilbara in Australia have been handed over to the iron ore product group in 2007.

Industrial minerals exploration was active in many parts of the world including southern Africa, Europe and South America. Following the successful tender for the Jarandol concession (borates, Serbia), drilling has commenced.

Brownfields exploration support continued at several Rio Tinto operations and product group projects, including Diavik, Argyle, Kennecott Utah Copper, Eagle, Energy Resources of Australia, La Granja, Pilbara Iron, Greens Creek and Rössing. Exploration also provided expertise to the brownfields programmes at the Grasberg and Cortez joint ventures.

In December the Exploration group□s ISO14001 environmental management system certification was extended to cover the new Asia region and the project generation team.

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TECHNOLOGY AND INNOVATION

The Technology and Innovation group, formerly Operational and Technical Excellence, was formed during 2006 by bringing together the Technology group and the Group's *Improving performance together* business improvement work in the areas of mining, processing and asset management.

Technology and Innovation provides a central body of expertise for supporting the business units to embed operational best practice and is the vehicle through which technology innovations are driven and technical talent is developed.

The group comprises a number of Centres of Excellence which drive sustainable performance in the areas of health, safety and environment, mining, processing, assets integrity, project development and evaluation, and strategic planning. Key elements are standardisation of core processes to make them leading practice, the improvement of analytical tools, the introduction of common, transparent metrics and data to measure performance, and enhanced functional training and capability development of staff.

A further Centre of Excellence focuses on major innovation likely to be required to develop the orebodies of the future.

The total staff in Technology and Innovation at year end was 368, compared with 343 in 2005. The increase was due to the higher level of activity resulting from the current climate of growth in the industry.

In July 2006, Grant Thorne succeeded Ian Smith as global head of Technology and Innovation.

Operations

Health, Safety and Environment

The HSE Centre of Excellence ensures that strategies and standards are in place to minimise HSE risk and drive performance. Activities support their implementation in the businesses and report results and performance trends to the board.

Specific activities during 2006 included the embedding of key environmental standards and metrics within business units, complementing the health and safety standards which place Rio Tinto as an industry leader in terms of performance in these areas, and completing development of the product stewardship strategy, which integrates product stewardship into business systems, securing both market access and competitive advantage.

Innovation

The Innovation Centre of Excellence is designed to drive step change innovation for Rio Tinto, focused on a five to ten year timeframe. The main focus is on technologies applicable across the Group, particularly in mining, processing and energy.

Key innovation programmes were undertaken in underground and surface mining as well as processing. Specific activities during 2006 focused on the block cave mining method, tunnel development and remote monitoring in underground mining, in pit material sizing and conveying, data fusion in surface mining, and process advances in ore sorting and comminution.

Shared Expertise

Shared Expertise, a core group of technical professionals located across five global offices, provides a breadth of experience and a multi disciplinary approach in delivering projects to the business units across the Group. This team works in partnership with the operating sites to implement leading practice. It also provides technical support on an ongoing basis as required.

Mining and Processing

The Mining and Processing Centres of Excellence address the core mine production processes. Specific activities in these areas during 2006 focused on continuing to establish and disseminate leading practice in orebody knowledge and value driven production planning across the operations.

Assets Integrity

The Assets Integrity Centre of Excellence develops world class asset management capabilities to create

significant value for Rio Tinto. Activities for 2006 focused on the reliability and performance of physical assets across the Group, including the implementation of standards and internal league tables for maintenance of heavy mobile equipment such as trucks and shovels. This led to significant improvement in areas such as tyre life, truck utilisation and prolonging engine and component life.

Project Development and Evaluation

On 1 March 2007 the Projects Centre of Excellence and the Evaluation team were combined to form a new Centre for Excellence for Project Development and Evaluation (PDE). The principal accountabilities of PDE are to provide independent advice to the capital appraisal and approval process, and on the adequacy of project submissions, from prefeasibility studies through to execution and commissioning. It also conducts post investment reviews; and ensures that the substantial experience of the Group in project definition and delivery is reflected in future projects.

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Strategic Planning

The Strategic Planning Centre of Excellence focuses on three separate but related areas. These are value optimisation in the strategic planning horizon, risk assessment and management, and business improvement, providing a centre for coordinating leading practice for improvement methodologies across Rio Tinto.

Financial performance

2006 compared with 2005

The charge against net earnings for the group was US$50 million, compared with US$41 million in 2005. The increase was due to the greater level of activity, reflected also in the addition of staff.

2005 compared with 2004

The charge for the Technology group (including Health, Safety and Environment) against net earnings was US$41 million, compared with US$35 million in 2004. The increase was due to the great er level of activity in all Technology group units.

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SOCIETY AND ENVIRONMENT

Group employees

Approximate average for the year	Subsidiaries and jointly controlled assets	Equity accounted units	Total
2002	29,000	8,000	37,000
2003	29,000	7,000	36,000
2004	28,000	4,000	32,000
2005	28,000	4,000	32,000
2006	31,000	4,000	35,000

Principal employee locations 2006	
Australia / New Zealand	14,000
North America	10,000
Africa	5,000
Other	6,000
	35,000

Rio Tinto is in business to create value by finding and developing world class mineral deposits and operating and eventually closing operations safely, responsibly and efficiently. To do so, the Group takes a disciplined and integrated approach to the economic, social and environmental aspects of all its activities.

The approach to achieving this is through implementation of the policies described in *The way we work* , Rio Tinto's statement of business practice, at all levels of the business.

The statement was published initially in January 1998 and revised in 2002 and 2003. It is now available in more than 20 languages. It is the result of wide internal consultation and discussion and represents shared values from around the Group.

The way we work commits the Group to transparency consistent with normal commercial confidentiality, corporate accountability and the application of appropriate standards and internal controls. It sets the basis for how Group companies' employees work and also provides guidance for joint venture partners and others. Every employee is responsible for implementing the policies in the document.

Rio Tinto has adopted the Association of British Insurers' 2003 disclosure guidelines on social responsibility in preparing this report. Details of the Group's overall and individual businesses' social and environmental performance continue to be published on the Rio Tinto website: www.riotinto.com and in the *Sustainable development review* .

Board responsibilities

The directors of Rio Tinto, and of Group companies, are responsible for monitoring adherence to the Group policies outlined in *The way we work*. Assurance for performance in these areas involves checking, reviewing and reporting each business's implementation of the policies, their compliance with regulations and voluntary commitments, and the effectiveness of management and control systems, while also providing mechanisms for improvement.

As discussed in the section on *Corporate governance* on page 122, the boards established a process for identifying, evaluating and managing the significant risks faced by the Group. Directors meet regularly, have regular scheduled discussions on aspects of the Group's strategy and full and timely access to the information required to discharge their responsibilities fully and effectively.

Rio Tinto's *Compliance guidance* requires that the identification of risk be systematic and ongoing. It

recommends that each Group company undertakes a structured risk profiling exercise to identify, categorise and weigh the risks it faces in the conduct of its business. Each Group company puts systems in place to ensure that risks are reviewed at an appropriate frequency.

Total remuneration is related to performance through the use of annual bonuses, long term incentives and stretching targets for personal, financial and safety performance.

The board's *Committee on social and environmental accountability* reviews the effectiveness of policies and procedures. The committee comprises four non executive directors. It meets four times annually with the chief executive and heads of Technology, Health, Safety and Environment (HSE), and Communications and External Relations.

Reports for the committee summarise significant matters identified through Rio Tinto's assurance activities. These include reviews every four years of each business to identify and manage strategic risks in relation to health, safety, and the environment; audits against Rio Tinto standards; risk reviews for specific concerns; procedures and systems for reporting critical and significant issues and incidents; completion of annual internal control questionnaires by all Group business leaders covering the full spectrum of business and operational risk; and findings and recommendations of the independent external assurance and data verification programme. In 2006 a new Corporate Assurance function was established to integrate all assurance activities, including the assurance activities of Internal Audit, HSE, and Communities, into a single assurance process.

Policies, programmes and results

Implementation of the policies in *The way we work* is discussed in the following sections according to each policy area. Known risks arising from social and environmental matters and their management in Group businesses is described in

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the relevant Group operations section.

In 2006 HSE developed an integrated HSE and Quality Management System. Implementation will commence in 2007 and is mandatory for all managed businesses.

Safety

Rio Tinto believes that all injuries are preventable and its goal is zero injuries. Wherever we operate, we hold the health and safety of our employees to be core values. This requires visible leadership and a culture of supportive workplace behaviour, as well as clear standards, consistent implementation, and the transfer of best practice and improvement throughout the Group.

While in 2006 the safety record improved for the seventh consecutive year, there is still some way to go in achieving the goal of zero injuries. In 2006, very regrettably, three employees lost their lives at managed operations. The incidents have been investigated and actions taken to prevent recurrance. The Group has again demonstrated strong improvements in the year end lost time injury frequency rate (LTIFR) at 0.50 (2005: 0.56) and all injury frequency rate (AIFR) at 1.10 (2005: 1.35), reductions of 11 per cent and 18 per cent respectively. Rio Tinto set targets in 2003 for a 50 per cent reduction in LTIFR and AIFR by 2008 □ in 2006 we were on trajectory to meet those targets.

Fines for infringement of safety regulations involved nine operations, totalling US$34,794 (2005: US$87,600).

Occupational health

Occupational health is a major priority. Rio Tinto is committed to ensuring the good health of its employees and contractors.

Our occupational health standards have now been implemented in 96 per cent of our businesses. In 2006 there were 32 new cases of occupational illness per 10,000 employees, a 40 per cent improvement compared with 54 in 2005. The Group has achieved a 69 per cent reduction in the rate of new cases of occupational illness since 2003.

The nature of occupational illnesses is changing and we have active programmes in place to manage the emerging issues of stress, fatigue, and age related illnesses such as heart disease and reduced physical capacity. In 2006 we also revised our HIV/AIDS strategy and, whereas in the past our efforts had been concentrated on southern Africa, today our approach is global.

In 2004, in order to focus attention on reducing noise induced hearing (NIHL) loss across the Group, a target was set of a 20 per cent reduction in the rate of exposure (per 10,000 employees) to a noise environment of more than 85 decibels (dB) between 2004 and 2008.

Implementation of the hearing conservation standard has increased the awareness of NIHL, resulting in an increased baseline after 2004. The reported rate of exposure to more than 85 dB in 2006 was reduced by 1.0 per cent from 2004.

Fines for infringement of occupational health regulations in 2006 involved two operations, totalling US$3,000 (2005: US$58,100).

Environment

Respect for the environment is at the heart of Rio Tinto□s approach to sustainable development. Wherever possible Rio Tinto prevents, or otherwise minimises, mitigates and remediates, harmful effects of the Group□s operations on the environment. The strategic framework used to improve environmental performance provides a coherent way of assessing and addressing risks to the business.

We have devised and implemented a number of practical, core programmes covering the management of water, mineral and non mineral waste, air quality, product stewardship, land stewardship and biodiversity. These programmes involve input from our partners and local communities as well as from experts in these fields.

Rio Tinto believes that emissions of greenhouse gases (GHGs) from human activities are contributing to climate change. Controlling GHG emissions is one of our biggest challenges, and the Group is working to reduce emissions from its processes and in the use of its products. We have five year targets to reduce our GHG emissions by four per cent per tonne of product and improve our energy efficiency by five per cent per tonne of product by 2008, compared with a 2003 baseline.

In 2006, energy efficiency improved by 2.6 per cent compared with 2003, while GHG efficiency improved by 0.3 per cent. Both areas slipped from 2005 and remain below the trajectory needed to achieve the 2008 targets. Our emissions efficiency result is affected by both production interruptions and changes in the emissions

intensity of purchased electricity. The scheduled maintenance shutdown of the Kennecott Utah copper smelter significantly impacted our performance per unit. Without the smelter shutdown our performance would have been one per cent better.

We continued to engage with governments and stakeholders who are also trying to find solutions to climate change. In order to ensure that Group actions remain effective and that Rio Tinto maintains a leading position in this area, in 2006 Rio Tinto embarked on a new three year climate change plan. Changes in emission factors affected performance by a further 0.6 per cent.

The improvement in freshwater withdrawal efficiency, at 11.5 per cent compared with 2003, remained on track to achieve the 2008 target of ten per cent.

By the end of 2006, 96 per cent of operations had certified ISO 14001 or an equivalent environmental management system (EMS). There were eight significant environmental incidents in 2006, of which three were spills, compared with eight in 2005, of which two were spills. Fines for infringements of environmental regulations involved

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four operations and totalled US$56,799 (2005: US$67,900).

Land access

Rio Tinto manages 35,000 square kilometres of land, five per cent of which is disturbed for mining purposes. Rio Tinto seeks to ensure the widest possible support for its proposals throughout the life cycle of the Group's activities by coordinating economic, technical, environmental and social factors in an integrated process.

This involves negotiation of mining access agreements with indigenous landowners; responsible land management and rehabilitation; planning for closure; developing and implementing a biodiversity strategy; and forming strategic partnerships with external organisations.

Political involvement

Rio Tinto does not directly or indirectly participate in party politics nor make payments to political parties or individual politicians.

A *Business integrity guidance*, addressing bribery, corruption and political involvement, was issued in 2003 to assist managers in implementing this policy. The guidance covers questions relating to compliance and implementation; gifts and entertainment; the use of agents and intermediaries; and 'facilitation' payments.

Rio Tinto avoids making facilitation payments anywhere in the world. Bribery in any form is prohibited. Gifts and entertainment are only offered or accepted for conventional social and business purposes and then only at a level appropriate to the circumstances.

Communities

Rio Tinto sets out to build enduring relationships with its neighbours that are characterised by mutual respect, active partnership, and long term commitment.

Every business unit is required to have rolling five year community plans which are updated annually. In 2004, a series of pilot studies were completed aimed at achieving a deeper level of understanding of the linkages between mining activities and the economies in which they take place.

All Group businesses produce their own reports for their local communities and other audiences. Community assurance of the quality and content of these reports is increasing. This provides an opportunity for engagement with the community on their views of programmes sponsored by the operations.

Businesses managed by Rio Tinto contributed US$96.4 million to community programmes in 2006 (2005: US$93.4 million) calculated on the basis of the London Benchmarking Group model. Of the total contributions, US$29.6 million was community investment and US$32.6 million in direct payments made under legislation or an agreement with a local community.

Human rights

Rio Tinto supports human rights consistent with the Universal Declaration of Human Rights and also respects those rights in conducting the Group's operations throughout the world.

Rio Tinto also supports the UN Secretary General's Global Compact, the US/UK Voluntary Principles on Security and Human Rights and the Global Sullivan Principles.

Rio Tinto's *Human rights guidance* is designed to assist managers in implementing the Group's human rights policy in complex local situations. It was revised and republished in 2003. In 2004, a web based training module was developed to instruct managers on what the policy means in practice and how to respond to difficult situations.

Employment

Rio Tinto recognises that business performance is closely linked to effective people development. It has a long term plan to strengthen approaches to the training and development of leaders in the Group.

New talent is essential to our business and Rio Tinto provides attractive career opportunities for outstanding graduates across many disciplines. However, the recent rapid growth in demand for skilled recruits, coupled with a reduced flow of qualified candidates from traditional schools, is making competition for human resources very intense within the mining industry. Making mining more attractive as a career is therefore crucial for our ability to access new people. We are committed to the training and development of our existing employees.

People development in Rio Tinto is focused on ensuring leadership and competence across the Group. In

addition to a comprehensive and customised series of leadership development programmes from supervisor through to managing director, Rio Tinto is developing a series of functional development programmes for professionals and practitioners across the Group, such as mining, processing or marketing.

Beyond formal programmes we are also developing our own approach to coaching which will further strengthen our people development activities. This plus an increased focus on training and e-learning will be key to Rio Tinto's people development strategy moving forward. Rio Tinto values diversity because we believe it confers a real business benefit. An international group like ours needs to be able to draw on the broad range of management experience and insight that can only come from a team of men and women with a diversity of racial and cultural backgrounds.

In 2004, we focused on achieving specific diversity related targets important to the future of our organisation. While we continue to work towards these targets, these were reviewed and refined in 2006 to ensure their continuing alignment with our business objectives and needs. Diversity will continue to be an important people development agenda for the Group.

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Rio Tinto requires safe and effective working relationships in all its operations. Whilst respecting different cultures, traditions and employment practices, common goals are shared, in particular the elimination of workplace injuries, and commitment to good corporate values and ethical behaviour.

In 2005 and 2006, Group companies, mainly concentrated in Australia and North America, employed approximately 31,000 people and, together with Rio Tinto's proportionate share of consolidated companies and equity accounted units, the total was approximately 35,000 (2005: 32,000). Wages and salaries paid in 2006 excluding Rio Tinto's proportionate share of consolidated companies and equity accounted units, totalled US$2.5 billion (2005: US$2.1 billion).

Retirement payments and benefits to dependants are provided in accordance with local conditions and good practice.

Rio Tinto encourages the involvement of its employees in the Group's performance through their participation in an employee share scheme. As stated in *The way we work*, the Group recognises the right of employees to choose whether or not they wish to be represented collectively.

Sustainable development

Rio Tinto has made a strategic commitment to sustainable development, in the belief that acting responsibly will result in long term business benefits such as lowering risks, reducing costs, creating options, and leveraging reputation. It is corporate policy that Group businesses, projects, operations and products should contribute constructively to the global transition to sustainable development. Details of our policy, programmes and results are provided in our *Sustainable development review*, available on the website.

During the course of 2006, our Sustainable Development Leadership Panel (SDLP), composed of senior executives from all six product groups and corporate functions, focused on Rio Tinto's sustainable development strategy. Input was sought from a wide range of sources, both within Rio Tinto and outside. The panel assessed the current status of sustainable development practice in the Group, decided that Rio Tinto should strive to be the sector leader in its contribution to sustainable development, and defined the areas we need to focus on in order to accomplish that goal.

The focus areas include developing a sustainable development culture, similar to that already in place on safety, key performance indicators, effective communication, supply chain management, and taking account of sustainable development in risk management, long term, planning and mines of the future.

To help explain the concepts of sustainable development, both to existing employees and newcomers, we introduced training and awareness raising tools throughout the Group. In addition, we are using another, more detailed programme for managers, based on the e-learning tool, Chronos, developed by the World Business Council for Sustainable Development and Cambridge University in the UK. By the end of 2006 more than 700 managers had participated in the programme.

As a founding member of the International Council on Mining and Metals, Rio Tinto is committed to superior business practices in sustainable development. We have committed to implement the ICMM Sustainable Development Framework and comply with policy statements of the ICMM Council.

Openness and accountability

Rio Tinto conducts the Group's affairs in an accountable and transparent manner, reflecting the interests of Rio Tinto shareholders, employees, host communities and customers as well as others affected by the Group's activities.

Policies on transparency, business integrity, corporate governance and internal controls and reporting procedures are outlined in *The way we work*. In 2003, a *Compliance guidance* was issued to provide a framework to enable each Group business to implement and maintain a best practice compliance programme which should identify and manage risks associated with non compliance with laws, regulations, codes, standards and Rio Tinto policies.

Assurance and verification

To be accountable and transparent, assurance is provided to the Group and others that Rio Tinto policies are being implemented fully and consistently across the Group's businesses and operations.

The overall objective of the external assurance and data verification programme is to provide assurance that the material in the *Sustainable development review* is relevant, complete, accurate and responsive, and, in

particular, that Rio Tinto's policies and programmes are reflected in implementation activities at operations. In 2006, Environmental Resources Management (ERM) undertook the external assurance and data verification programme and the results are available in Rio Tinto's *Sustainable development review*.

Competition

Rio Tinto has adopted a specific antitrust policy requiring all employees to compete fairly and to comply with relevant laws and regulations. Under the policy, guidance is provided on contacts with competitors and benchmarking as well as implementation of the policy in individual businesses. As integral parts of the policy, all relevant employees receive regular training and are required to certify annually that they are not aware of any antitrust violations. No violations were reported in 2006.

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FINANCIAL REVIEW

Cash flow

2006 compared with 2005

Cash flow from operations, including dividends from equity accounted units, was a record US$10,923 million, 36 per cent higher than in 2005. The increase was mainly due to increased profits. There was a cash outflow on working capital in both years reflecting higher receivables across all product groups due to higher metal prices and sales volumes. The cash outflow on inventory was US$454 million in 2006 compared to US$249 million in 2005, partly due to increased operating activity and production costs.

The Group invested at record levels, in particular in expansion projects. Expenditure on property, plant and equipment, exploration and other intangible assets was US$3,992 million in 2006, an increase of US$1,402 million over 2005. This included the second phase of the Dampier port and Yandicoogina iron ore mine expansions, as well as construction of the Hope Downs iron ore mine in Western Australia, the A418 dyke construction at the Diavik diamond mine, the Madagascar ilmenite mine and the capacity increases at Rio Tinto Energy America. Capital expenditure is expected to continue at a high level in 2007.

Tax paid in 2006 increased to US$2,799 million, US$1,782 million higher than in 2005. The increase reflects higher profits including the lag effect of tax payments on higher profits from 2005.

Acquisitions less disposals were US$279 million in 2006 mainly relating to the acquisition of an initial stake in Ivanhoe Mines. In 2005, there were net proceeds of disposal of US$321 million arising mainly from the sale of the Group□s interest in Lihir.

Dividends paid in 2006 of US$2,573 million were US$1,432 million higher than dividends paid in 2005. These included the special dividend totalling US$1.5 billion which was paid to shareholders in April 2006. Capital management activity also included the on market buyback of Rio Tinto plc shares in 2006, comprising US$2,299 million from the 2006/07 programme and US$95 million in January from the 2005/06 programme (before deducting US$24 million proceeds from the exercise of options). In 2005 an off market buyback of Rio Tinto Limited shares returned US$774 million to shareholders and an on market buyback of Rio Tinto plc shares returned US$103 million.

2005 compared with 2004

Cash flow from operations, including dividends from equity accounted units at US$8,031 million, was 88 per cent higher than in 2004.

The increase was mainly due to increased profits. This was partly offset by an increased cash outflow on working capital in 2005 mainly reflecting higher receivables across all product groups due to higher metal prices and sales volumes.

Cash flow of US$323 million from disposals of interests in businesses in 2005 primarily related to the sale of Lihir. In 2004, disposals generated proceeds of over US$1.5 billion. The largest components of this were the sale of shares in FCX and the sale of Rio Tinto□s interest in the Morro do Ouro gold mine in Brazil.

Purchase of property, plant and equipment and intangible assets of US$2,590 million included the major port and rail infrastructure expansion in Western Australia, payments for coal reserves purchased by Rio Tinto Energy America, the expansion of Hail Creek coking coal and initial expenditure on the construction of a new dyke at Diavik.

During the year the Group repaid US$893 million of its gross outstanding debt and cash balances increased by approximately US$2.0 billion. Dividends paid in 2005 of US$1,141 million were US$235 million higher than dividends paid in 2004 following the 20 per cent increase in the dividend declared in respect of the previous year. A capital return programme was commenced under which an off market buy back of Rio Tinto Limited shares was carried out, and subsequently an on market buy back of Rio Tinto plc shares. Almost two thirds of the US$1.5 billion capital management programme announced on 3 February 2005 had been completed by the end of January 2006.

Balance sheet

The balance sheet remained strong during the period, although record capital expenditure and the increased capital management activity resulted in an increase in net debt of US$1,124 million to US$2,437 million at 31 December 2006. Debt to total capital rose to 11 per cent but interest cover strengthened to 89 times.

In 2006, net assets increased by US$3,646 million. Outside interests increased by US$362 million mainly due to retained profits at Robe River and IOC. Equity attributable to Rio Tinto shareholders increased by US$3,284 million: as net earnings attributable to Rio Tinto shareholders of US$7,438 million exceeded the combined amounts of share buybacks and dividends paid by US$2,207 million; and there was a positive currency translation effect of US$820 million mainly reflecting the eight per cent strengthening of the Australian dollar.

The Group's borrowings, net of related currency and interest rate swaps, totalled US$3.2 billion at 31 December 2006, of which US$1,143 million will mature in 2007. The majority of the Group's borrowings relate to amounts issued under the Group's corporate bond and medium term notes programmes totalling approximately US$2.0 billion, of which US$847 million will mature in 2007.

In addition to the above, the Group's share of the third party net debt of equity accounted units totalled US$459 million at 31 December 2006. This debt, which is set out in note 15 to the 2006 *financial statements*, is without recourse to the Rio Tinto Group.

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Financial risk management

The Group's policies with regard to risk management are clearly defined and consistently applied. They are a fundamental principle of the Group's long term strategy.

The Group's business is mining and not trading. The Group only sells commodities it has produced. In the long term, natural hedges operate in a number of ways to help protect and stabilise earnings and cash flow. The Group has a diverse portfolio of commodities and markets, which have varying responses to the economic cycle. The relationship between commodity prices and the currencies of most of the countries in which the Group operates provides further natural protection in the long term. These natural hedges reduce the relevance of derivatives or other forms of synthetic hedging. Such hedging is therefore undertaken to a strictly limited degree, as described in the sections on currency, interest rate, commodity price exposure and treasury management below.

The Group's 2006 financial statements and disclosures show the full extent of its financial commitments including debt.

The risk factors to which the Group is subject that are thought to be of particular importance are summarised on pages 5 to 6.

The effectiveness of internal control procedures continues to be a high priority in the Rio Tinto Group. The boards' statement on internal control is included under *Corporate governance* on page 126.

Liquidity and capital resources

The unified credit status of the Group is maintained through cross guarantees whereby contractual obligations of Rio Tinto plc and Rio Tinto Limited are automatically guaranteed by the other. Rio Tinto plc and Rio Tinto Limited enjoy strong long and short term credit ratings from Moody's and Standard and Poor's. These ratings continue to provide financial flexibility and consistent access to debt via money or capital markets and enable very competitive terms to be obtained. The ratings outlook from both agencies is presently reported as 'stable'. Credit ratings are not a recommendation to purchase, hold or sell securities, and are subject to revision or withdrawal at any time by the ratings organisation.

Rio Tinto does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise. This policy is balanced against the desire to ensure efficiency in the debt/equity structure of the Rio Tinto balance sheet in the longer term through pro-active capital management programmes.

The Group maintains backup liquidity for debt maturing within 12 months and its commercial paper programmes by way of bank standby credit facilities, which totalled US$2.3 billion at 31 December 2006. These facilities, which were unused at the year end, can be drawn upon at any time on terms extending out to five years.

As at 31 December 2006, the Group had contractual cash obligations arising in the ordinary course of business as follows:

Contractual cash obligations	Total US$m	Less than 1 year US$m	Between 1 and 3 years US$m	Between 3 and 5 years US$m	After 5 years US$m
Debt (a)	3,179	1,157	847	544	631
Operating leases	427	62	72	51	242
Unconditional purchase obligations (b)	3,600	903	1,211	660	826
Deferred consideration	179	37	78	29	35
Other (c)	2,413	1,675	572	129	37
Total	**9,798**	**3,834**	**2,780**	**1,413**	**1,771**

Notes

(a) Debt obligations include bank borrowings repayable on demand and reflect the impact of related currency and interest rates waps

(b)

Unconditional purchase obligations relate to commitments to make payments in the future for fixed or minimum quantities of goods or services at fixed or minimum prices. The future payment commitments have not been discounted and mainly relate to commitments under "take or pay" power and freight contracts. They exclude unconditional purchase obligations of jointly controlled entities apart from those relating to the Group's tolling arrangements.

(c) Other relates primarily to capital commitments.

(d) In addition, the Group had liabilities for trade and other payables, other financial liabilities, tax and provisions.

Information regarding the Group's pension commitments and funding arrangements is provided in the *Post retirement benefits* section of this *Financial review* and in note 46 to the 2006 financial statements.

On the basis of the levels of obligations described above, the unused capacity under the Group's commercial paper and European Medium Term Notes programmes, the Group's anticipated ability to access debt and equity capital markets in the future and the level of anticipated free cash flow, there are reason able grounds to believe that the Group has sufficient short and long term sources of funding available to meet its liquidity requirements.

The Group's committed bank standby facilities contain no financial undertakings relating to interest cover. The Group has no financial agreements that would be affected to any material extent by a reduction in the Group's credit rating. There are no covenants relating to corporate debt which are under negotiation at present.

The Group's policy is to centralise debt and surplus cash balances whenever possible.

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Dividends

Dividends paid on Rio Tinto plc and Rio Tinto Limited shares are equalised on a net cash basis; that is without taking into account any associated tax credits. Dividends are determined in US dollars.

Rio Tinto's progressive dividend policy aims to increase the US dollar value of dividends over time, without cutting them in economic downturns. Rio Tinto plc shareholders receive dividends in pounds sterling and Rio Tinto Limited shareholders receive dividends in Australian dollars, which are determined by reference to the exchange rates applicable to the US dollar two days prior to the announcement of dividends. Changes in exchange rates could result in a reduced sterling or Australian dollar dividend in a year in which the US dollar value is maintained or increased. The interim dividend for each year in US dollar terms will be equivalent to 50 per cent of the total US dollar dividends declared in respect of the previous year.

In April 2006 the Group paid a US$1.5 billion special dividend (US$1.10 per share) announced as part of the 2006 capital management programme (see below). The special dividend was paid concurrently with the 2005 final ordinary dividend, but did not form part of the Group's progressive ordinary dividend policy.

The Group announced a re-basing of its ordinary dividend in February 2007, increasing the full year ordinary dividend in respect of 2006 by 30 per cent to 104 US cents. An interim dividend of 40 US cents was paid in October 2006 and a final dividend for the year of 64 US cents was paid in April 2007.

Capital management programme

On 2 February 2006 the Group announced a US$4 billion capital management programme, comprising the US$1.5 billion special dividend (US$1.10 per share paid in April 2006) referred to above and a US$2.5 billion share buyback programme over two years to the end of 2007.

The US$4 billion programme was completed almost a year ahead of schedule in January 2007.

On 27 October 2006, the Group announced an increase in the programme by US$3 billion to US$7 billion, to be completed over the remaining period to the end of 2007. The additional cash return is planned through the buyback of shares, subject to market conditions.

As at 31 December 2006, the cumulative cash returns to shareholders under the 2005/06 and 2006/07 capital management programmes amounted to US$4.8 billion.

Treasury management and financial instruments

Treasury activities operate as a service to the business of the Rio Tinto Group and not as a profit centre. Strict limits on the size and type of transaction permitted are laid down by the Rio Tinto board and are subject to rigorous internal controls. Corporate funding and overall strategic management of Rio Tinto's balance sheet is handled by the London based Group Treasury.

Rio Tinto does not acquire or issue derivative financial instruments for trading or speculative purposes; nor does it believe that it has exposure to such trading or speculative holdings through its investments in joint ventures and associates. Derivatives are used to separate funding and cash management decisions from currency exposure and interest rate management. The Group uses interest rate swaps in conjunction with longer term funds raised in the capital markets to achieve a floating rate obligation which is consistent with the Group's interest rate policy as described in the section on 'Interest rates' below. Currency swaps are used to convert debt or investments into currencies, primarily the US dollar, which are consistent with the Group's policy on currency exposure management as described in *Exchange rates, reporting currencies and currency exposure* below. No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments held by the Group.

The derivative contracts in which the Group is involved are valued by reference to quoted market prices, quotations from independent financial institutions or by discounting expected cash flows.

Off balance sheet arrangements

In the ordinary course of business, to manage the Group's operations and financing, Rio Tinto enters into certain performance guarantees and commitments for capital and other expenditure.

The aggregate amount of indemnities and other performance guarantees, on which no material loss is expected, including those related to joint ventures and associates, was US$501 million at 31 December 2006.

Other commitments include contracted capital expenditure, operating leases and unconditional purchase obligations as set out in the table of contractual cash obligations, included in the *Liquidity and capital resources*

section above.

Exchange rates, reporting currencies and currency exposure

Rio Tinto's shareholder's equity, earnings and cash flows are influenced by a wide variety of currencies due to the geographic diversity of the Group's sales and the countries in which it operates. The US dollar, however, is the currency in which the great majority of the Group's sales are denominated. Operating costs are influenced by the currencies of those countries where the Group's mines and processing plants are located and also by those currencies in which the costs of imported equipment and services are determined. The Australian and Canadian dollars are the most important currencies influencing costs, apart from the US dollar.

In any particular year, currency fluctuations may have a significant impact on Rio Tinto's financial results. A weakening of the US dollar against the currencies in which the Group's costs are determined has an adverse effect on Rio Tinto's underlying earnings.

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However, this would also result in exchange gains on net debt denominated in US dollars held in non US functional currency operations, which has a positive effect on Rio Tinto's EU IFRS profit and net earnings. It would also result in exchange gains and losses on intragroup balances denominated in US dollars held by non US functional currency operations. Such gains and losses on US dollar net debt and intragroup balances are excluded from underlying earnings.

The following sensitivities give the estimated effect on underlying earnings of a ten per cent change in the full year average exchange rate, assuming that each exchange rate moved in isolation. Movements in exchange rates can cause movements in commodity prices and vice versa. However, the relationship between currencies and commodity prices is a complex one, with varying degrees of correlation depending on the currency in question. Where the functional currency of an operation is that of a country for which production of commodities is an important feature of the economy, such as the Australian dollar, there is a certain degree of natural protection against cyclical fluctuations in the long term, in that the currency tends to be weak, reducing costs in US dollar terms, when commodity prices are low, and vice versa.

The exchange rate sensitivities quoted below include the effect on operating costs of movements in exchange rates but exclude the effect of the revaluation of foreign currency working capital, US dollar net debt and intragroup balances. They should therefore be used with care.

Exchange rate sensitivities	Average Exchange rate for 2006	2006 Effect on underlying earnings of 10% change in full year average +/- US$m
Australian dollar	75 US cents	280
Canadian dollar	88 US cents	80
Chilean peso	US$1 = 530 pesos	10
New Zealand dollar	65 US cents	6
South African rand	15 US cents	22
UK Sterling	184 US cents	15
Other	n/a	6

The sensitivities in the 2006 column are based on 2006 prices, costs and volumes and assume that all other variables remain constant.

Gains and losses on exchange arising from net monetary assets/(liabilities), other than US dollar net debt and intragroup balances, that are not denominated in the functional currency of the relevant business unit are recorded in the income statement and are included in underlying earnings. The table below reflects the amounts of assets less liabilities, net of tax and outside interests as at the end of 2006, which expose the Group to such exchange gains and losses. These balances will not remain constant throughout 2007, however, and therefore these numbers should be used with care.

	Currency of exposure		2006
	US dollar US$m	Other US$m	Total US$m
Functional currency of business unit:			
Australian dollar	487	1	488

Canadian dollar	86	8	94
South African rand	26	5	31
Other currencies	95	19	114
Total	**694**	**33**	**727**

Given the dominant role of the US currency in the Group's affairs, the US dollar is the currency in which financial results are presented both internally and externally. It is also the most appropriate currency for borrowing and holding surplus cash, although a portion of surplus cash may also be held in other currencies, most notably Australian dollars, in order to meet short term operational and capital commitments and dividend payments.

The Group finances its operations primarily in US dollars, either directly or using currency swaps, and a substantial part of the Group's US dollar debt is located in subsidiaries having functional currencies other than the US dollar. Exchange differences on net debt that hedges the net assets of entities with functional currencies other than the US dollar are dealt with through equity. All other exchange differences on net debt are dealt with in the income statement, but those related to US dollar net debt are excluded in arriving at underlying earnings. Exchange gains and losses which arise on balances between Group entities are taken to equity where that balance is, in substance, part of the Group's net investment in a subsidiary or equity accounted unit. All other exchange differences on intragroup balances are dealt with in the income statement but are excluded from underlying earnings.

The table below reflects the amounts of net debt and intragroup balances at the end of 2006, net of tax and outside interests, that expose the Group to exchange gains and losses that would be recorded in the income statement. These balances will not remain constant during 2007, however, and these numbers should therefore be used with care.

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	Net debt[1] Currency of exposure		2006	Intragroup balances Currency of exposure		2006
Functional currency of business unit:	US$ US$m	Other US$m	Total US$m	US$ US$m	Other US$m	Total US$m
United States dollar	—	(5)	(5)	—	2,747[2]	2,747
Australian dollar	(516)	6	(510)	(1,522)	31	(1,491)
Canadian dollar	(106)	1	(105)	(245)	—	(245)
South African rand	(19)	—	(19)	(38)	(4)	(42)
Other currencies	17	4	21	(38)	20	(18)
Total	**(624)**	**6**	**(618)**	**(1,843)**	**2,794**	**951**

Notes

1 The table shows exposures after taking account of the impact of currency swaps. Further details of currency swaps are included in note 32 to the 2006 financial statements.

2 These amounts relate to intragroup liabilities denominated in Australian dollars reported by subsidiaries with a US dollar functional currency. They are shown as positive balances because they have the effect of offsetting the exposures resulting from external and intragroup US dollar liabilities in Australian functional currency subsidiaries.

The Group does not generally believe that active currency hedging would provide long term benefits to shareholders. Currency protection measures may be deemed appropriate in specific commercial circumstances and are subject to strict limits laid down by the Rio Tinto board. As set out in note 32 to the 2006 financial statements, as at 31 December 2006 there were derivative contracts to sell US$581 million and buy A$550 million and NZ$520 million in respect of future trading transactions. A significant part of the above hedge book was acquired with North Limited. North held a substantial hedge book on acquisition which has been retained but is not being renewed as maturities occur.

The functional currency of most operations within the Rio Tinto Group is the local currency in the country of operation. Foreign currency gains or losses arising on translation of the net assets of these operations are taken to equity and, with effect from 1 January 2004, recorded in a currency translation reserve. The approximate translation effects on the Group's net assets of ten per cent movements from the year end exchange rates are as follows:

	Closing exchange rate US cents	2006 Effect on net assets of 10% change in closing rate +/- US$m
Australian dollar	79	1,161
Canadian dollar	86	152
South African rand	14	(4)
UK Sterling	196	32
Other	—	(1)

Interest rates

Rio Tinto's interest rate management policy is generally to borrow and invest cash at floating rates. Short term US dollar rates are normally lower than long term rates, resulting in lower interest costs to the Group. Furthermore, cyclical movements of interest rates tend to compensate in the long term, to an extent, for those of commodity prices. In some circumstances, an element of fixed rate funding may be considered appropriate. At

the end of 2006, US$1.2 billion of the Group's debt was at fixed rates after taking into account interest rate swaps. Based on the Group's net debt at 31 December 2006, and with other variables unchanged, the approximate effect on the Group's net earnings of a one percentage point increase in US dollar LIBOR interest rates would be a reduction of US$6 million.

Commodity prices

The Group's normal policy is to sell its products at prevailing market prices. Exceptions to this rule are subject to strict limits laid down by the Rio Tinto board and to rigid internal controls. Rio Tinto's exposure to commodity prices is diversified by virtue of its broad commodity spread and the Group does not generally believe commodity price hedging would provide long term benefit to shareholders. The forward contracts to sell 420 million pounds of copper at a fixed rand price per pound were entered into as a condition of the refinancing of Palabora in 2005.

Metals such as copper and aluminium are generally sold under contract, often long term, at prices determined by reference to prevailing market prices on terminal markets, such as the London Metal Exchange and COMEX in New York, usually at the time of delivery. Prices fluctuate widely in response to changing levels of supply and demand but, in the long run, prices are related to the marginal cost of supply. Gold is also pr iced in an active market in which prices respond to daily changes in quantities offered and sought. Newly mined gold is only one source of supply; investment and disinvestment can be important elements of supply and demand. Contract prices for many other natural resource products are generally agreed annually or for longer periods with customers, although volume commitments vary by product.

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Approximately 53 per cent of Rio Tinto's 2006 net earnings from operating businesses came from products whose prices were terminal market related and the remainder came from products priced by direct negotiation.

Commodity prices increased rapidly in 2005 and 2006. Looking to 2007, there are a number of uncertainties in the global economy, not least the direction of inflation and interest rates in major economies. The Group expects some moderation of global economic growth, although confidence in Japan and Europe is increasing. Growth in China, which is critical to the demand outlook for many of the Group's products, is expected to remain strong and well balanced. The Group continues to view the overall outlook for commodities as positive, with prices expected to remain well above their long run averages in 2007.

Ore reserves (under Industry Guide 7) presented on pages 23 to 33 do not exceed the quantities that it is estimated could be extracted economically if future prices were to be in line with the average of historical prices for the three years to 30 June 2006, or contracted prices where applicable. For this purpose, contract ed prices are applied only to future sales volumes for which the price is predetermined by an existing contract; and the average of historical prices is applied to expected sales volumes in excess of such amounts. Moreover, reported ore reserve estimates have not been increased above the levels expected to be economic based on Rio Tinto's own long term price assumptions. Therefore, a reduction in commodity prices from the three year average historical price levels would not necessarily give rise to a reduction in reported ore reserves.

The table below shows published "benchmark" prices for Rio Tinto's commodities for the last three years where these are publicly available, and where there is a reasonable degree of correlation between the benchmark and Rio Tinto's realised prices. The prices set out in the table are the averages for each of the calendar years, 2004, 2005 and 2006. The Group's revenue will not necessarily move in line with these benchmarks for a number of reasons which are discussed below.

Commodity	Source	Unit	2004 US$	2005 US$	**2006 US$**
Aluminium	LME	pound	0.78	0.86	**1.16**
Copper	LME	pound	1.30	1.66	**3.06**
Gold	LBMA	ounce	409.	444.	**602.**
Iron ore	Australian benchmark (fines)(a)	dmtu (b)	0.35	0.55	**0.71**
Lead	LME	pound	0.40	0.44	**0.59**
Molybdenum	Metals Week: quote for dealer oxide price	pound	16.	31.	**25.**
Silver	LBMA	ounce	6.6	7.3	**11.6**
Zinc	LME	pound	0.48	0.63	**1.49**

Notes
(a) average for the calendar year
(b) dry metric tonne unit

The discussion of revenues below relates to the Group's gross revenue from sales of commodities, including its share of the revenue of equity accounted units, as included in note 47 to the 2006 financial statements.

The Australian iron ore fines benchmark increased by 19 per cent in April 2006. The higher prices, combined with higher volumes at Hamersley, contributed to an increase in the Group's iron ore revenue of 26 per cent. The benchmark price increased by 71.5 per cent in April 2005 compared with 2004. This contributed to an increase in the Group's iron ore revenue of 83 per cent, with the additional benefits of volume increases from the West Angelas and Yandicoogina expansions and the recovery of output at IOC, after a ten week strike in 2004.

A significant proportion of Rio Tinto's coal production is sold under long term contracts. In Australia, the prices applying to sales under the long term contracts are generally renegotiated annually; but prices are fixed at different times of the year and on a variety of bases. For these reasons, average realised prices will not necessarily reflect the movements in any of the publicly quoted benchmarks. Moreover, there are significant product specification differences between mines. Sales volumes will vary during the year and the timing of shipments will also result in differences between average realised prices and benchmark prices.

Revenues of the Group's Australian coal operations increased by two per cent in 2006. There was a sustained increase in the received price for thermal coal. This benefit was largely offset by lower coking coal sales because of market weakness and the delay in thermal coal shipments arising from congestion at Newcastle. Published market indications for Australian thermal coal show a slight increase in thermal coal prices in 2006 on a calendar

year basis and a seven per cent increase in the coking coal benchmark price.

Revenues from these operations increased by 45 per cent in 2005, benefiting from a significant increase in prices realised on sales both of thermal and coking coal yet published market indications for Australian thermal coal showed a reduction of ten per cent in 2005 compared with 2004. The coking coal benchmark price increased by 99 per cent in 2005.

In the US, Rio Tinto Energy America□s revenues increased by 19 per cent in 2006, with higher realised prices for Powder River Basin coal and increased volumes. Published market indications of spot prices for Wyoming thermal coal show an increase of 24 per cent for the average spot price in 2006 compared with 2005. However, spot prices were volatile during the period. Revenues increased by six per cent in 2005, with benefits from higher prices limited by the influence of long term contracts. Published market indications of spot prices for Wyoming thermal coal showed an

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increase of 61 per cent in 2005 over 2004.

Information included in the RWE NUKEM Inc. Price Bulletin indicated price increases of 71 per cent in 2006 and 54 per cent in 2005 for uranium oxide. The Group's uranium revenue increased by 27 per cent in 2006 and by 23 per cent in 2005 as a result of higher prices. The large increases reported in the Price Bulletin are not fully reflected in the revenues for the period because uranium oxide is typically sold on long term contracts with pricing determined for several years beyond the commencement of the contracts. However, a significant portion of output from Rössing is not under long term contracts and there is therefore more exposure to the spot market from Rössing's output than from ERA's.

Industrial Minerals sales are made under contract at negotiated prices. Revenue from industrial minerals increased by five per cent in 2006 against 2005. This was mainly attributable to improved prices and to stronger demand for titanium dioxide chloride feedstock. Revenue in 2005 was 17 per cent higher than in 2004. This was mainly attributable to strong price performance across all products at Rio Tinto Iron and Titanium and increased volumes, particularly at Richards Bay Minerals.

The Aluminium group's sales revenues are from aluminium, alumina and bauxite. Revenue increased by 27 per cent in 2006. Average aluminium prices quoted on the LME increased by 35 per cent in 2006 but achieved spot alumina prices were lower than in 2005. In 2005, revenue increased by 16 per cent while average prices quoted on the LME increased by ten per cent. In addition to these price increases, revenues reflected increased sales volumes, including the ramp up of output from Yarwun, which commenced shipments in November 2004.

The Copper group also produces gold and molybdenum as significant by products. Total Copper group sales revenues in 2006 increased by 46 per cent over 2005. Copper revenues increased by 77 per cent, broadly in line with the 84 per cent increase in the LME price. Lower grades and therefore volumes at Grasberg more than offset the higher volumes at the other copper operations. A 22 per cent decrease in gold revenue was also attributable to lower grades at Grasberg which outweighed the effect of the 36 per cent increase in the gold price. Molybdenum revenue was only six per cent down on 2005 with record production at KUC offsetting much of the effect of the 20 per cent fall in price.

In 2005, the Copper group's revenues were 60 per cent higher than in 2004. Copper revenues increased by 33 per cent while the average LBMA copper price increased by 28 per cent. Revenues benefited both from the increase in prices and from increased volumes, including the effect of a return to full operations at Grasberg after a pit wall slippage in 2003. Gold revenues in 2005 were 69 per cent higher than in 2004 while the average LBMA gold price increased by nine per cent year on year. Revenues benefited from the price increase and also from the very substantial recovery in sales volumes at Grasberg. Average molybdenum prices quoted in Metals Week in 2005 almost doubled from the 2004 level. Sales revenue was over five times higher. In addition to the higher prices, this reflected a major step up in volumes achieved through changes in the mine plan at KUC to maximise molybdenum production in response to the strong market.

Whilst the Diamond Trading Company (DTC) reported a two per cent increase in diamond prices in February, market reports indicated that prices were re-adjusted downwards in the second half of the year. While movements in the DTC price are a general indicator of the overall rough diamond market, they do not necessarily correlate closely with prices actually realised by Rio Tinto, which reflect the particular type of diamonds in its diverse product mix. The 22 per cent decrease in Diamond group revenue in 2006 against 2005 was almost wholly attributable to the softer markets experienced by Argyle which resulted in excess of US$100 million of surplus rough diamonds being held in inventory at the end of the year. Diamond revenue increased 45 per cent in 2005 against 2004. There was a six per cent increase in the DTC indicated price for rough diamonds in the year. The majority of the increase in Rio Tinto diamond revenues was attributable to higher volumes and higher prices at Argyle and the commencement of the Murowa operation.

Lead, zinc and silver accounted for less than one per cent of revenue in each of the two years to 2006.

The approximate effect on the Group's underlying earnings of a ten per cent change from the full year average market price in 2006 for the following products would be:

		Average market price for 2006	Effect on underlying earnings of 10% change in full year average
	Unit	US$	+/- US$m

Copper	Pound	3.06	422
Aluminium	Pound	1.16	167
Gold	Ounce	602.	46
Molybdenum	Pound	25.	56
Iron ore	dmtu	n/a	367

The above sensitivities are based on 2006 volumes and give the estimated impact on underlying earnings of changes in prices assuming that all other variables remain constant. These should be used with care. As noted previously, the relationship between currencies and commodity prices is a complex one and changes in exchange rates can influence commodity prices and vice versa.

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Critical accounting policies and estimates

Dual listed company reporting

In previous years, the Form 20-F filed with the United States Securities and Exchange Commission (SEC), contained separate consolidated financial statements for the Rio Tinto plc and Rio Tinto Limited parts of the Group. These were presented on the basis of the legal ownership of the various operations within each part of the Group. The separate financial statements for Rio Tinto Limited included, on a consolidated basis, the Group undertakings under its legal ownership, and those for Rio Tinto plc included, on a consolidated basis, the Group undertakings under its legal ownership. This presentation of financial information filed with the SEC was on the assumption that the formation of the Group through the dual listed companies (DLC) arrangements was not a business combination. The financial statements filed with the SEC also included supplemental financial information that combined the consolidated financial statements of the Rio Tinto plc and Rio Tinto Limited parts of the Group to present the Rio Tinto Group, with no adjustment for fair values.

This combined financial information for the Rio Tinto Group was consistent with the financial statements that were used for the purposes of satisfying the Group's reporting obligations in the United Kingdom and Australia. The combined financial statements for the Rio Tinto Group viewed the formation of the DLC as a business combination and accounted for the transaction as a merger in accordance with UK Financial Reporting Standard No. 6 Acquisitions and Mergers (FRS 6). Applying FRS 6, Rio Tinto plc and Rio Tinto Limited were combined and presented as one economic entity with no adjustment for fair values.

As permitted under the transitional arrangements set out in IFRS 1 First time adoption of International Financial Reporting Standards, which sets out the rules for first time adoption of IFRS, the Group did not apply the concepts of IFRS 3 Business Combinations for business combinations prior to the first time application(of EU IFRS. Accordingly, the Group is following the same method of accounting for the DLC in its financial statements under EU IFRS as was historically followed under UK GAAP: the Group is presented as one economic entity at historical cost.

Subsequent to the formation of the Group, the accounting model used in filings with the SEC for the presentation of financial statements of companies that form DLCs has changed. The formation of a new DLC is now viewed as a business combination. The Group now believes that it is preferable to treat the formation of the DLC as a business combination, and as a result, that the accounting and reporting of financial statements prepared in accordance with IFRS to the SEC will be consistent with the accounting and reporting in the United Kingdom and Australia.

Accordingly, the Group has revised the presentation of its financial statements included in Form 20-F to account for the formation of the DLC as a business combination. As a consequence, separate financial statements for Rio Tinto plc and Rio Tinto Limited will no longer be presented. Instead, the financial statements will deal with the Rio Tinto Group as one combined economic entity. This new presentation is applied retrospectively for all periods presented. The EU IFRS information presented on this new basis in the 20-F is the same as the combined supplemental information for the Rio Tinto Group that was previously disclosed.

Under US GAAP, the Group now accounts for the formation of the DLC using the purchase method. As a consequence of this treatment, Rio Tinto shareholders' funds under US GAAP at 31 December 2006 are US$1,519 million above those under IFRS; and US GAAP net earnings for 2006 are US$62 million below those under EU IFRS. Further information on the impact of purchase accounting under US GAAP is shown in note 48 to the 2006 financial statements.

The 2006 *Annual report and financial statements* satisfy the obligations of Rio Tinto Limited to prepare consolidated accounts under Australian company law, as amended by an order issued by the Australian Securities and Investments Commission on 27 January 2006 (as amended on 22 December 2006). The 2006 financial statements disclose the effect of the adjustments to consolidated EU IFRS profit, consolidated total recognised income and consolidated shareholders funds for the Group that would be required under the version of IFRS that is applicable in Australia (Australian IFRS).

The US dollar is the presentation currency used in these financial statements, as it most reliably reflects the Groups global business performance.

Ore reserve estimates

Rio Tinto estimates its ore reserves and mineral resources based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the JORC code). The amounts presented under EU and Australian IFRS are

based on the reserves, and in some cases mineral resources, determined under the JORC code.

For the purposes of the Group's financial information under US GAAP, ore reserves are computed in accordance with the SEC's Industry Guide 7 and are shown on pages 23 to 33. Estimates of ore reserves and mineral resources in accordance with JORC are not shown in this combined annual report on Form 20-F.

Ore reserves presented in accordance with SEC Industry Guide 7 do not exceed the quantities that, it is estimated, could be extracted economically if future prices were to be in line with the average of historical prices for the three years to 30 June 2006, or contracted prices where applicable. For this purpose, contracted prices are applied only to future sales volumes for which the price is predetermined by an existing contract; an d the average of historical prices is applied to expected sales volumes in excess of such amounts. Moreover, reported ore reserve estimates have not been increased above the levels expected to be economic based on Rio Tinto's own long term price assumptions. Therefore, a

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reduction in commodity prices from the three year average historical price levels would not necessarily give rise to a reduction in reported ore reserves.

There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production cost s or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping calculations and provisions for close down, restoration and environmental clean up costs.

Asset carrying values

Events or changes in circumstances can give rise to significant impairment charges or reversals of impairment provisions in a particular year. In 2006, the Group's results included net impairment reversals of US$396 million (US$44 million after tax and outside shareholders interests). Impairments were reversed at KUC and IOC which more than offset impairment charges at Argyle and Tarong Coal. In 2005, there were no significant impairment charges or reversals. However in 2004, the Group incurred a US$558 million impairment charge, (US$321 million net of tax and outside shareholders' interests).

When such events or changes in circumstances impact on a particular asset or cash generating unit, its carrying value is assessed by reference to its recoverable amount being the higher of fair value less costs to sell and value in use (being the net present value of expected future cash flows of the relevant cash generating unit). The best evidence of an asset's fair value is its value obtained from an active market or binding sale agreement. Where neither exists, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. In most cases this is estimated using a discounted cash flow analysis. The cash flows used in these analyses are particularly sensitive to changes in two parameters: exchange rates and commodity selling prices. The great majority of the Group's sales are based on prices denominated in US dollars. To the extent that the currencies of countries in which the Group produces commodities strengthen against the US dollar without commodity price offset, cash flows and, therefore, net present values are reduced. Management considers that over the long term, there is a tendency for movements in commodity prices to compensate to some extent for movements in the value of the US dollar (and vice versa). But such compensating changes are not synchronised and do not fully offset each other.

Recent favourable changes in commodity prices have exceeded adverse shifts in exchange rates. Comparing average exchange rates in 2006 against those in 2003, the Australian dollar strengthened by 16 per cent against the US dollar, the Canadian dollar strengthened by 24 per cent and the South African rand by ten per cent. Over the same period, commodity prices rose substantially: for example, copper prices increased by 281 per cent, aluminium by 79 per cent and gold by 66 per cent.

Reviews of carrying values relate to cash generating units which, in accordance with IAS 36 'Impairment of Assets', are identified by dividing an entity into as many largely independent cash generating streams as is reasonably practicable. In some cases the business units within the product groups consist of several operations with independent cash generating streams, which therefore constitute separate cash generating units.

The cash flow forecasts are based on best estimates of expected future revenues and costs. These may include net cash flows expected to be realised from extraction, processing and sale of other mineralisation that does not currently qualify for inclusion in proven or probable ore reserves. Such non reserve material is included where there is a high degree of confidence in its economic extraction. This expectation is usually based on preliminary drilling and sampling of areas of mineralisation that are contiguous with existing reserves. Typically, the additional evaluation to achieve reserve status for such material has not yet been done because this would involve incurring costs earlier than is required for the efficient planning and operation of the mine.

The expected future cash flows of cash generating units reflect long term mine plans which are based on detailed research, analysis and iterative modelling to optimise the level of return from investment, output and sequence of extraction. The plan takes account of all relevant characteristics of the orebody, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and production costs.

Rio Tinto's cash flow forecasts are based on assessments of expected long term commodity prices, which for most commodities are derived from an analysis of the marginal costs of the producers of these commodities. These assessments often differ from current price levels and are updated periodically.

In some cases, prices applying to some part of the future sales volumes of a cash generating unit are predetermined by existing sales contracts. The effects of such contracts are taken into account in forecasting

future cash flows.

Cost levels incorporated in the cash flow forecasts are based on the current long term mine plan for the cash generating unit. For impairment reviews, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36. IAS 36 includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure.

The useful lives of the major assets of a cash generating unit are usually dependent on the life of the orebody to which they relate. Thus the lives of mining properties, smelters, concentrators and other long lived processing

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equipment generally relate to the expected life of the ore body. The life of the ore body, in turn, is estimated on the basis of the long term mine plan.

Forecast cash flows are discounted to present values using Rio Tinto's weighted aver age cost of capital with appropriate adjustment for the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows. For final feasibility studies and ore reserve estimation, internal hurdle rates are used which are generally higher than the weighted average cost of capital.

Final feasibility studies, ore reserve estimates and value in use estimates are based on the exchange rates current at the time of the evaluation. In estimates of fair value, a forecast of the long term exchange rate is made having regard to spot exchange rates, historical data and external forecasts.

Forecast cash flows for ore reserve estimation for JORC purposes and for impairment testing are based on Rio Tinto's long term price forecasts. For final feasibility studies these prices and projected costs, are assumed to decline systematically in real terms.

For the majority of Rio Tinto's businesses, both by number and by value, the recoverable amounts are substantially in excess of the carrying value in the balance sheet. For a minority of the businesses the carrying value is close to their recoverable amount, and these are reviewed for impairment where required. The effects of exchange rate and commodity price changes on the values of these units relative to their book values are monitored closely.

All goodwill and intangible assets that are not yet ready for use or have an indefinite life are tested annually for impairment regardless of whether there has been any change in events or circumstances.

Under US GAAP, assumptions used in cash flow forecasts are principally the same as those used under EU IFRS, except that the estimated cash flows related to the liability for asset retirement obligations are excluded under US GAAP (and the related liabilities are excluded from the determination of the carrying value of the asset group). Goodwill is tested annually for impairment. Impairment of other intangible assets and of property, plant and equipment is only recognised when the anticipated undiscounted cash flows are insufficient to recover the carrying value of the asset group. Once impairment is determined, an asset is written down to its fair value, which is normally calculated using discounted cash flows, similar to those under EU IFRS and the result is generally similar to that under EU IFRS. It is not possible to reverse impairment charges under US GAAP.

Close down, restoration and clean up obligations

Provision is made for environmental remediation costs when the related environmental disturbance occurs, based on the net present value of estimated future costs.

Close down and restoration costs are a normal consequence of mining, and the majority of close down and restoration expenditure is incurred at the end of the life of the mine. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals. Although the ultimate cost to be incurred is uncertain, the Group's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques. The initial closure provision together with changes, other than those arising from the unwind of the discount applied in establishing the net present value of the provision, are capitalised within property, plant and equipment and depreciated over the lives of the assets to which they relate.

Clean up costs result from environmental damage that was not a necessary consequence of mining, including remediation, compensation and penalties. These costs are charged to the income statement. Provisions are recognised at the time the damage, remediation process and estimated remediation costs become known. Remediation procedures may commence soon after this point in time but can continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental disturbance is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Overburden removal costs

In open pit mining operations, it is necessary to remove overburden and other barren waste materials to access ore from which minerals can economically be extracted. The process of mining overburden and waste materials is referred to as stripping. During the development of a mine, before production commences, it is generally accepted that stripping costs are capitalised as part of the investment in construction of the mine.

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however,

the pits are highly integrated for the purpose of mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs. In such cases, the initial stripping of the second and subsequent pits is considered to be production phase stripping relating to the combined operation.

Stripping of waste materials continues during the production stage of the mine or pit. Some mining companies expense these production stage stripping costs as incurred, while others defer such stripping costs. In operations that experience material fluctuations in the ratio of waste materials to ore or contained minerals on a year to year basis over the life of the mine or pit, deferral of stripping costs reduces the volatility of the cost of stripping expensed in individual

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reporting periods. Those mining companies that expense stripping costs as incurred will therefore report greater volatility in the results of their operations from period to period.

Rio Tinto defers production stage stripping costs for those operations where this is the most appropriate basis for matching costs with the related economic benefits and the effect is material. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of mine or pit ratio. Such deferred costs are then charged against reported profits to the extent that, in subsequent periods, the ratio falls short of the life of mine or pit ratio. The life of mine or pit ratio is based on the proven and probable reserves of the mine or pit and is obtained by dividing the tonnage of waste mined either by the quantity of ore mined or by the quantity of minerals contained in the ore. In some operations, the quantity of ore is a more practical basis for matching costs with the related economic benefits where there are important by products or where the grade of the ore is relatively stable from year to year.

The life of mine or pit waste-to-ore ratio is a function of the pit design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical or economic parameters that impact on reserves will also have an impact on the life of mine or pit ratio even if they do not affect the pit design. Changes to the life of mine or pit ratio are accounted for prospectively.

In the production stage of some operations, further development of the mine or pit requires a phase of unusually high overburden removal activity that is similar in nature to preproduction mine development. The costs of such unusually high overburden removal activity are deferred and charged against reported profits in subsequent periods on a units of production basis. This accounting treatment is consistent with that for stripping costs incurred during the development phase of a mine or pit, before production commences.

Deferred stripping costs are included in property, plant and equipment or in investment in equity accounted units, as appropriate. These form part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Amortisation of deferred stripping costs is included in operating costs or in the Group's share of the results of its jointly controlled entities and associates as appropriate.

During 2006, production stage stripping costs incurred by subsidiaries and equity accounted operations exceeded the amounts charged against pre tax profit, which included net impairment reversals of US$36 million, by US$56 million (2005: US$93 million). The net book value carried forward in property, plant and equipment and in investments in equity accounted units at 31 December 2006 was US$929 million (2005: US$ 845 million).

Information about the stripping ratios of the business units, including equity accounted units, that account for the majority of the deferred stripping balance at 31 December 2006, along with the year in which deferred stripping is expected to be fully amortised, is set out in the following table:

	Actual stripping ratio for the year			Life of mine stripping ratio		
	2004	2005	2006	2004	2005	2006
Kennecott Utah Copper (2019) (a) (b)	1.83	2.02	2.04	1.24	1.51	1.36
Argyle Diamonds (2009) (a)	6.70	6.60	4.00	4.91	4.40	4.40
Grasberg Joint Venture (2015) (a)	3.39	3.12	3.01	2.43	2.43	2.63
Diavik (2008) (c)	1.47	1.21	0.89	0.94	0.91	0.96
Escondida (2042) (d)	0.11	0.09	0.08	0.11	0.12	0.12

Notes

(a) Strip ratios shown are waste to ore.

(b) Kennecott's life of mine strip ratio decreased as the latest mine plan provides for the pit walls to be made steeper in an area within the mine which resulted in adding ore without adding waste.

(c) Diavik's strip ratio is disclosed as bank cubic metre per carat.

(d) Escondida's strip ratio is based on waste tonnes to pounds of copper mined.

Borax capitalised stripping costs as part of a distinct period of new development during the production stage of the mine. Capitalisation stopped in 2004. The capitalised costs will be fully amortised in 2034.

In 2006, the Group adopted EITF Issue No. 04-06 'Accounting for Stripping Costs Incurred during Production in the Mining Industry' ('EITF 04-06') for US GAAP. Under EITF 04-06, stripping costs incurred during the production phase of a surface mine are considered variable production costs that should be recorded directly as a component of production cost, except to the extent they can be attributed to inventory in accordance with normal inventory valuation principles.

As a consequence, on 1 January 2006 a cumulative adjustment of US$651 million (US$415 million net of

taxation) attributable to subsidiaries was recognised directly in US GAAP equity. A further US$94 million net of taxation related to equity accounted units was recognised directly in US GAAP equity.

Deferred tax on mining rights

On transition to EU IFRS with effect from 1 January 2004, deferred tax was provided in respect of fair value adjustments on acquisitions in previous years. No other adjustments were made to the assets and liabilities recognised in such prior year acquisitions and, accordingly, shareholders funds were reduced by US$720 million on transition to EU IFRS primarily as a result of deferred tax on fair value adjustments to mining rights. In general, these mining rights are not eligible for income tax allowances. In such cases, the provision for deferred tax was based on the difference between their carrying value and their nil income tax base. The existence of a tax base for capital gains tax purposes

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was not taken into account in determining the deferred tax provision relating to such mineral rights because it is expected that the carrying amount will be recovered primarily through use and not from the disposal of the mineral rights. Also, the Group is only entitled to a deduction for capital gains tax purposes if the mineral rights are sold or formally relinquished.

For acquisitions after 1 January 2004 provision for deferred tax on acquisition results in a corresponding increase in the amounts attributed to acquired assets and/or goodwill under EU IFRS.

Under US GAAP, such provisions for deferred tax result in corresponding increases in the amounts attributed to acquired assets and/or goodwill irrespective of the date of acquisition. The different treatment of acquisitions prior to 1 January 2004, results in higher shareholders funds under US GAAP.

Post retirement benefits

For defined benefit post employment plans, the Group has adopted the option under IAS 19 to recognise the difference between the fair value of the plan assets (if any) and the present value of the plan liabilities as an asset or liability on the balance sheet and to record actuarial gains and losses directly in the Statement of Recognised Income and Expense.

The most significant assumptions used in accounting for post retirement plans are the long term rate of return on plan assets, the discount rate and the mortality assumptions.

The long term rate of return on plan assets is used to calculate interest income on pension assets, which is credited to the Group s income statement. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the Group s income statement. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at the net present value of liabilities.

Valuations are carried out using the projected unit method.

The expected rate of return on pension plan assets is determined as management s best estimate of the long term return on the major asset classes, ie equity, debt, real estate and other, weighted by the actual allocation of assets among the categories at the measurement date. The expected rate of return is calculated using geometric averaging.

The sources used to determine management s best estimate of long term returns are numerous and include country specific bond yields, which may be derived from the market using local bond indices or by analysis of the local bond market, and country specific inflation and investment market expectations derived from market data and analysts or governments expectations as applicable.

In particular, the Group estimates long term expected real returns on equity, ie returns in excess of inflation, based on the economic outlook, analysts views and those of other market commentators. This is the most subjective of the assumptions used and it is reviewed regularly to ensure that it remains consistent with best practice.

The discount rate used in determining the service cost and interest cost charged to income is the market yield at the start of the year on high quality corporate bonds. For countries where there is no deep market in such bonds the yield on Government bonds is used. For determining the present value of obligations shown on the balance sheet, market yields at the balance sheet date are used.

Details of the key assumptions are set out in note 46 to the 2006 financial statements.

For 2006 the charge against income for post retirement benefits net of tax and minorities was US$158 million under EU IFRS. Under US GAAP the net cost was US$200 million. These charges include both pension and post retirement healthcare benefits. The charges are net of the expected return on assets which (net of tax and minorities) was US$228 million under EU IFRS and US$209 million under US GAAP.

In calculating the 2006 EU IFRS expense the average future increase in compensation levels was assumed to be 4.7 per cent and the same rate will be used for 2007. For US GAAP, the 2006 average future increase in compensation levels was assumed to be 4.6 per cent and this will remain at 4.6 per cent for 2007. For EU IFRS, the average discount rate used for the Group s plans in 2006 was 5.0 per cent and the average discount rate used in 2007 will be 5.4 per cent. This increase is attributable to higher bond yields across all regions. For US GAAP, the average discount rate used for the Group s plans in 2006 was 5.2 per cent and the average discount rate to be used in 2007 will be 5.4 per cent. This is also due to higher bond yields.

For both EU IFRS and US GAAP, the average expected long term rate of return on assets used to determine 2006 pension cost was 6.3 per cent. This will increase to 6.9 per cent for 2007. This is due to an increase in bond yields and a change in the methodology for setting the expected return on equity. Previously, the expected return on equities was set by reference to a fixed margin above inflation. This will be amended for 2007 so that the expected return on equities will be set by adding a risk premium to the yield on government bonds. This methodology is more consistent with that used by other major organisations and is considered to be more theoretically robust.

Based on the known changes in assumptions noted above and other expected circumstances, the impact of

post retirement costs on the Group's EU IFRS net earnings in 2007 would be expected to decrease by some US$26 million to US$132 million. The impact of post-retirement benefits on the Group's US GAAP net earnings in 2006 would be expected to decrease by some US$28 million to US$172 million. The actual charge may be impacted by other factors that cannot be predicted, such as the effect of changes in benefits and exchange rates.

The table below sets out the potential change in the Group's 2006 net earnings (after tax and outside interests) that would result from hypothetical changes to post retirement assumptions and estimates. The sensitivities are viewed for each assumption in isolation.

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Sensitivity of Group's 2006 net earnings to changes in:	EU IFRS US$m	US GAAP US$m
Expected return on assets		
▯ increase of 1 percentage point	26	24
▯ decrease of 1 percentage point	(26)	(24)
Discount rate		
▯ increase of 0.5 percentage points	1	8
▯ decrease of 0.5 percentage points	(1)	(8)
Salary increases		
▯ increase of 0.5 percentage points	(4)	(6)
▯ decrease of 0.5 percentage points	4	6
Demographic ▯ allowance for additional future mortality improvements		
▯ overall increase of 5% in benefit obligation	(11)	(18)
▯ overall decrease of 5% in benefit obligation	11	18

The figures in the above table only show the impact on net earnings. Changing the assumptions would also have an impact on the balance sheet.

The impact on cash flow in 2006 of the Group▯s pension plans, being the employer contributions to defined benefit and defined contribution pension plans, was US$172 million. In addition there were contributions of US$19 million in respect of unfunded healthcare schemes. Contributions to pension plans for 2007 are estimated to be around US$8m higher than for 2006. Healthcare plans are unfunded and contributions for future years will be equal to benefit payments and therefore cannot be predetermined.

Further information on pensions and other post retirement benefits is given in note 46 to the 2006 financial statements.

US deferred tax potentially recoverable

Rio Tinto▯s US tax group have Alternative Minimum Tax (AMT) credits and temporary differences, which have the potential to reduce tax charges in future years. These potential reductions in future tax charges (▯possible tax assets▯) totalled US$577 million at 31 December 2005. An asset of US$10 million was recognised in the balance sheet at 31 December 2005 based on utilisation of AMT credits projected for 2006.

Principally as a result of current high commodity prices, US$140 million of these possible tax assets were realised in 2006. Updated projections of future taxable profits for the operations that form part of Rio Tinto▯s US tax group resulted in the recognition of a further deferred tax asset of US$335 million during 2006. Having taken account of other adjustments this leaves possible tax assets of US$65 million. Recoveries are dependent on future commodity prices, costs, financing arrangements and business developments in future years.

Exploration

During the year the Group changed its policy on accounting for exploration and evaluation expenditure. Previously, the Group capitalised exploration and evaluation expenditure from acquisition of a beneficial interest or option in mineral rights. Full provision was made for impairment unless there was a high degree of confidence in the project▯s viability and hence it was considered probable that future economic benefits would flow to the Group. If, as a result of developments in subsequent periods, the expenditure was considered to be recoverable, such provisions were reversed. Under the Group▯s revised policy, exploration and evaluation expenditure is not capitalised until the point is reached at which there is a high degree of confidence in the project▯s viability and it is considered probable that future economic benefits will flow to the Group. This change was made to improve the alignment of Rio Tinto▯s accounting with the way that EU IFRS is being applied generally. Under US GAAP, exploration and evaluation expenditure is expensed as incurred.

The carrying values of exploration assets are reviewed twice per annum by management and the results of these reviews are reported to the *Audit committee*. There may only be mineralised material to form a basis for the impairment review. The review is based on a status report regarding the Group▯s intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to orebodies currently in production and will therefore benefit from existing infrastructure and equipment.

Temporary differences related to closure costs and finance leases

Under the initial recognition rules in paragraphs 15 and 24 of IAS 12 Income Taxes, deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination.

The Group s interpretation of these initial recognition rules has the result that no deferred tax asset is provided on the recognition of a provision for close down and restoration costs and the related asset or on recognition of assets held under finance leases and the associated lease liability, except where these are recognised as a consequence of business combinations.

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On creation of the closure provision, for instance, there is no effect on accounting or taxable profit because the cost is capitalised. As a result, the initial recognition rules would appear to prevent the recognition of a deferred tax asset in respect of the provision and of a deferred tax liability in respect of the related capitalised amount.

The temporary differences will reverse in future periods as the closure asset is depreciated and when tax deductible payments are made that are charged against the provision. Paragraph 22 of IAS 12 extends the initial recognition rules to the reversal of temporary differences on assets and liabilities to which the initial recognition rules apply. Therefore, deferred tax is not recognised on the changes in the carrying amount of the asset which result from depreciation or from the changes in the provision resulting from expenditure. When tax relief on expenditure is received this will be credited to the income statement as part of the current tax charge. The unwind of the discount applied in establishing the present value of the closure costs does affect accounting profit. Therefore, this unwinding of discount results in the recognition of deferred tax assets.

The application of this initial recognition exemption has given rise to diversity in practice: some companies do provide for deferred tax on closure cost provisions and the related capitalised amounts. Deferred tax accounting on initial recognition is currently the subject of an IASB/FASB convergence project which may at some future time require the Group to change this aspect of its deferred tax accounting policy.

If the Group were to provide for deferred tax on closure costs and finance leases under EU IFRS (as is already the case for US GAAP), the impact on net earnings and shareholders equity would be as follows:

	Impact on net earnings		Impact on closing shareholders equity	
	US$m	%	US$m	%
2006	9	.001%	127	.007%
2005	15	.003%	120	.008%
2004	20	.006%	105	.008%

Contingencies

Disclosure is made of material contingent liabilities unless the possibility of any loss arising is considered remote. Contingencies are disclosed in note 33 to the 2006 financial statements. These include tax assessments in Australia of approximately A$515 million which, based on Counsels opinion, the Group expects to be successful in challenging.

Underlying earnings

The Group presents Underlying earnings as an additional measure to provide greater understanding of the underlying business performance of its operations. The adjustments made to net earnings to arrive at underlying earnings are explained above in the section on underlying earnings.

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Item 6. Directors, Senior Management and Employees

	Audit committee	Nominations committee	Remuneration committee	Committee on social and environmental accountability
Chairman				
Paul Skinner		•		
Chief executive				
Tom Albanese				
Finance director				
Guy Elliott				
Non executive directors				
Ashton Calvert AC *		•		•
Sir David Clementi *	•		•	
Vivienne Cox *	•			
Sir Rod Eddington *		•		•
Michael Fitzpatrick *	•		•	
Richard Goodmanson *			•	•
Andrew Gould *	•		•	
Lord Kerr of Kinlochard *	•			•
David Mayhew		•		
Sir Richard Sykes *		•	•	

* Independent

CHAIRMAN

Paul Skinner BA (Hons) (Law), DpBA (Business Administration) age 62.

***Appointment and election*:** Director of Rio Tinto plc and Rio Tinto Limited since 2001, he was appointed chairman of the Group in November 2003. Paul was last re-elected by shareholders in 2005 and is chairman of the Nominations committee (note b).

***Skills and experience*:** Paul graduated in law from Cambridge University and in business administration from Manchester Business School. He was previously a managing director of The Shell Transport and Trading Company plc and group managing director of The Royal Dutch/Shell Group of Companies, for whom he had worked since 1966. During his career he worked in all Shells main businesses, including senior appointments in the UK, Greece, Nigeria, New Zealand and Norway. He was CEO of its global Oil Products business from 1999 to 2003.

External appointments (current and recent):

Director of The Shell Transport and Trading Company plc from 2000 to 2003.

Director of Standard Chartered plc since 2003.

Director of the Tetra Laval Group since 2005.

Director of L Air Liquide SA since 2006.

Chairman of the International Chamber of Commerce (UK) since 2005.

Non executive member of the Defence Management Board of the UK Ministry of Defence since June 2006.

Member of the board of INSEAD business school since 1999.

CHIEF EXECUTIVE

Tom Albanese BS (Mineral Economics) MS (Mining Engineering) age 49.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since March 2006. Tom was elected by shareholders in 2006.

Skills and experience: Tom joined Rio Tinto in 1993 on Rio Tinto□s acquisition of Nerco and held a series of management positions before being appointed chief executive of the Industrial Minerals group in 2000, after which he became chief executive of the Copper group and head of Exploration in 2004. He took over as chief executive from Leigh Clifford with effect from 1 May 2007.

External appointments (current and recent):

Director of Ivanhoe Mines Limited since November 2006.

Director of Palabora Mining Company from 2004 to 2006.

Member of the Executive Committee of the International Copper Association from 2004 to 2006.

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FINANCE DIRECTOR

Guy Elliott MA (Oxon) MBA (INSEAD) age 51.

Appointment and election: Finance director of Rio Tinto plc and Rio Tinto Limited since 2002. Guy was last re-elected by shareholders in 2007.

Skills and experience: Guy joined the Group in 1980 after gaining an MBA. He has subsequently held a variety of commercial and management positions, including head of Business Evaluation and president of Rio Tinto Brasil.

External appointments (current and recent):

None.

NON EXECUTIVE DIRECTORS

Ashton Calvert AC, BSc (Hons) (Tas), DPhil (Oxon), Hon DSc (Tas) age 61.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2005. Ashton was re-elected by shareholders in 2007 (notes b, d and e).

Skills and experience: Ashton retired as secretary of the Department of Foreign Affairs and Trade of the Government of Australia in January 2005 after six and a half years in that position. He was educated at the University of Tasmania and, as a Rhodes scholar, also gained a doctorate in mathematics from Oxford University. During his career in the Australian foreign service he held appointments in Washington and, on four occasions, in Tokyo, where he was ambassador prior to his appointment as secretary. In these and other roles he developed extensive experience of the Asian countries which represent key markets for Rio Tinto.

External appointments (current and recent):

Director of Woodside Petroleum Limited since 2005.

Director of The Australian Trade Commission between 1998 and 2005.
Director of The Export Finance and Insurance Corporation between 1998 and 2005.
Director of The Australian Strategic Policy Institute between 2001 and 2005.

Sir David Clementi MA, MBA, FCA age 57.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2003. Sir David was last re-elected by shareholders in 2006 (notes a, c and e).

Skills and experience: Sir David is chairman of Prudential plc, prior to which he was Deputy Governor of the Bank of England. His earlier career was with Kleinwort Benson where he spent 22 years, holding various positions including chief executive and vice chairman. A graduate of Oxford University and a qualified chartered accountant, Sir David also holds an MBA from Harvard Business School.

External appointments (current and recent):

Chairman of Prudential plc since 2002.

Member of the Financial Reporting Council since 2003.

Vivienne Cox MA (Oxon), MBA (INSEAD) age 47.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2005. Vivienne was elected by shareholders in 2005 (notes a and e).

Skills and experience: Vivienne is currently executive vice president of BP p.l.c. for Gas Power & Renewables. She is a member of the BP group chief executive□s committee. She holds degrees in chemistry from Oxford University and in business administration from INSEAD. During her career in BP she has worked in chemicals, exploration, finance, and refining and marketing.

External appointments (current and recent):

Non executive Director of Eurotunnel plc between 2002 and 2004.

Sir Rod Eddington B.Eng M.Eng (University of Western Australia), D.Phil (Oxon) age 57.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2005. Sir Rod was elected by shareholders in 2006 (notes b, d and e).

Skills and experience: Sir Rod was chief executive of British Airways Plc until the end of September 2005. Prior

to his role with British Airways, Sir Rod was Managing Director of Cathay Pacific Airways from 1992 until 1996 and Executive Chairman of Ansett Airlines from 1997 until 2000.

External appointments (current and recent):

Director of News Corporation plc since 1999.
Director of John Swire & Son Pty Limited since 1997.

Non executive chairman of JPMorgan Australia and New Zealand since January 2006.
Director of CLP Holdings since January 2006.
Director of Allco Finance Group Limited since July 2006.
Chief executive British Airways Plc from 2000 until 2005.
Chairman of the EU/Hong Kong Business Co-operation Committee of the Hong Kong Trade Development Council from 2002 until March 2006.

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Michael Fitzpatrick B. Eng (University of Western Australia), BA (Oxon) age 54.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since June 2006. Michael was elected by shareholders in 2007 (notes a, c and e).

Skills and experience: Michael recently sold his interest in, and ceased to be a director of, Hastings Funds Management Ltd., the pioneering infrastructure asset management company which he founded in 1994. He is Chairman of the Victorian Funds Management Corporation, which manages funds on behalf of the State of Victoria, and of Treasury Group Limited, an incubator of fund management companies. He is a commissioner of the Australian Football League, having previously played the game professionally, and is a former chairman of the Australian Sports Commission.

External appointments (current and recent):

Managing Director of Hastings Funds Management Ltd from 1994 to 2006.

Chairman of the Victorian Funds Management Corporation since 2006.
Chairman of Treasury Group Limited since 2005.
Director of Pacific Hydro Limited from 1996 to 2004.
Director of Australian Infrastructure Fund Limited from 1994 to 2005.
Director of the Walter & Eliza Hall Institute of Medical Research since 2001.

Richard Goodmanson MBA (Columbia University), BEc and BCom (University of Queensland), B. Eng. – Civil (Royal Military College, Duntroon) age 59.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2004. He was elected by shareholders in 2005 and is chairman of the Committee on social and environmental accountability (notes c, d and e).

Skills and experience: Richard is executive vice president and chief operating officer of DuPont. During his career he has worked at senior levels for McKinsey & Co, PepsiCo and American West Airlines, where he was president and CEO. He joined DuPont in early 1999 and in his current position has responsibility for a number of the global functions, and for the non US operations of DuPont, with particular focus on growth in emerging markets.

External appointments (current and recent):

Executive vice president and chief operating officer of DuPont since 1999.

Chairman of the United Way of Delaware since January 2006 (director since 2002).
Director of the Boise Cascade Corporation between 2000 and 2004.

Andrew Gould BA FCA age 60.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2002. Andrew was last re-elected by shareholders in 2006. He is also chairman of the Audit committee (notes a, c and e).

Skills and experience: Andrew is chairman and chief executive officer of Schlumberger Limited, where he has held a succession of financial and operational management positions, including that of executive vice president of Schlumberger Oilfield Services and president and chief operating officer of Schlumberger Limited. He has worked in Asia, Europe and the US. He joined Schlumberger in 1975. He holds a degree in economic history from Cardiff University and qualified as a chartered accountant with Ernst & Young.

External appointments (current and recent):

Chairman and Chief Executive Officer of Schlumberger Limited since 2003.

Member of the Advisory Board of the King Fahd University of Petroleum and Minerals in Dhahran, Saudi Arabia since January 2007.
Member of the commercialization advisory board of Imperial College of Science Technology and Medicine, London since 2002.
Member of the UK Prime Minister's Council of Science and Technology from 2004 to February 2007.

Lord Kerr of Kinlochard GCMG MA age 65.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2003. He was re-elected by shareholders in 2007 (notes a, d and e).

Skills and experience: An Oxford graduate, he was in the UK Diplomatic Service for 36 years an d headed it

from 1997 to 2002 as Permanent Under Secretary at the Foreign Office. His foreign service included periods in the Soviet Union and Pakistan, and as Ambassador to the European Union (1990 to 1995), and the US (1995 to 1997). He has been a member of the House of Lords since 2004.

External appointments (current and recent):

Deputy Chairman of Royal Dutch Shell plc since 2005.

Director of The Shell Transport and Trading Company plc from 2002 to 2005.

Director of The Scottish American Investment Trust plc since 2002.

Chairman of the Court and Council of Imperial College, London since 2005.

Trustee of the Rhodes Trust since 1997, The National Gallery since 2002, and the Carnegie Trust for the Universities of Scotland since 2005.

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David Mayhew age 66.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 2000. He was last re-elected by shareholders in 2006 (note b).

Skills and experience: David joined Cazenove in 1969 from Panmure Gordon. In 1972 he became the firm's dealing partner and was subsequently responsible for the Institutional Broking Department. From 1986 until 2001 he was the partner in charge of the firm's Capital Markets Department. He became Chairman of Cazenove on incorporation in 2001 and Chairman of JPMorgan Cazenove in 2005.

External appointments (current and recent):

Chairman of Cazenove Group Limited (formerly Cazenove Group plc) since 2001.

Chairman of Cazenove Capital Holdings Limited since 2005.

Sir Richard Sykes BSc (Microbiology) PhD (Microbial Biochemistry), DSc, Kt, FRS, FMedSci age 64.

Appointment and election: Director of Rio Tinto plc and Rio Tinto Limited since 1997. Sir Richard was appointed the senior non executive director in 2005 and is chairman of the Remuneration committee. Sir Richard was re-elected for a further term of office in 2007 but his intention is to retire after the annual general meetings in 2008 (notes b, c and e).

Skills and experience: After reading microbiology at the University of London, Sir Richard obtained doctorates in microbial chemistry and in science from the University of Bristol and the University of London respectively. A former chairman of GlaxoSmithKline plc Sir Richard is a Fellow of the Royal Society. He is currently Rector of Imperial College London.

External appointments (current and recent):

Director of Lonza Group Limited since 2003, Deputy Chairman since 2005.
Chairman of the Healthcare Advisory Group (Apax Partners Limited) since 2002.
Chairman of Metabometrix Ltd since 2004.
Chairman of Merlion Pharmaceuticals Pte Limited since 2005.
Chairman of OmniCyte Ltd since 2006
Chairman of Circassia Ltd since 2007
Director of Abraxis BioScience Inc since 2006.
Director of Bio*One Capital Pte Ltd since 2003
Chairman of GlaxoSmithKline plc between 2000 and 2002.
Rector of Imperial College London since 2001.
Trustee of the Natural History Museum, London between 1996 and 2005 and of the Royal Botanic Gardens, Kew between 2003 and 2005.

DIRECTOR RETIRING AT CONCLUSION OF THE 2007 ANNUAL GENERAL MEETINGS

Leigh Clifford B Eng (Mining), M Eng Sci age 59.

Appointment and election: Director of Rio Tinto plc since 1994 and Rio Tinto Limited since 1995, he was appointed chief executive in 2000.

Skills and experience: Leigh graduated from the University of Melbourne as a mining engineer and gained a Master of Engineering Science degree from the same University. He has held various roles in the Group's coal and metalliferous operations since joining in 1970, including managing director of Rio Tinto Limited and chief executive of the Energy group. He was a member of the Coal Industry Advisory Board of the International Energy Agency for a number of years and its chairman from 1998 to 2000.

External appointments (current and recent):

Director Barclays Bank plc since 2004.

Chairman of the International Council on Mining & Metals since October 2006.
Director of Freeport-McMoRan Copper & Gold Inc between 2000 and 2004.
Appointed to Bechtel Board of Counsellors in May 2007.

Notes

(a) Audit committee
(Sir David Clementi, Vivienne Cox, Michael Fitzpatrick, Andrew Gould and Lord Kerr of Kinlochard)
(b) Nominations committee

(Paul Skinner, Ashton Calvert, Sir Rod Eddington, David Mayhew and Sir Richard Sykes)

(c) Remuneration committee
(Sir David Clementi, Michael Fitzpatrick, Richard Goodmanson, Andrew Gould and Sir Richard Sykes)

(d) Committee on social and environmental accountability
(Ashton Calvert, Sir Rod Eddington, Richard Goodmanson and Lord Kerr of Kinlochard)

(e) Independent
(Ashton Calvert, Sir David Clementi, Vivienne Cox, Sir Rod Eddington, Michael Fitzpatrick, Richard Goodmanson, Andrew Gould, Lord Kerr of Kinlochard, Sir Richard Sykes)

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GROUP EXECUTIVES

For accounting standards purposes (IAS 24 and AASB 124) the Group's key management personnel as defined, comprises the directors and the product group chief executives. From 1 June 2007 they include the Group executive Technology and Innovation, and the Group executive Business Resources.

Preston Chiaro BSc (Hons) Environmental Engineering, MEng Environmental Engineering), age 53.

Skills and experience:Preston was appointed chief executive of the Energy group in September 2003. He heads the Group's climate change and sustainable development leadership panels. He joined the Group in 1991 at Kennecott Utah Copper's Bingham Canyon mine as vice president, technical services. In 1995 he became vice president and general manager of the Boron operations in California. He was chief executive of Rio Tinto Borax from 1999 to 2003.

External appointments (current and recent):

Director of the World Coal Institute since 2003 (chairman since November 2006).

Member of the Executive board of the Coal Industry Advisory Board to the International Energy Agency since 2004.

Director of Energy Resources of Australia Limited

Director of Coal & Allied Industries Limited between 2003 and September 2006.

Director of Rössing Uranium Limited since 2004.

Bret Clayton BA (Accounting), age 44.

Skills and experience: Bret was appointed chief executive of the Copper group in July 2006. He joined the Group in 1995 and has held a series of management positions, including chief financial officer of Rio Tinto Iron Ore and president and chief executive officer of Rio Tinto Energy America. Prior to joining the Group, Bret worked for PricewaterhouseCoopers for nine years, auditing and consulting to the mining industry.

External appointments (current and recent):

Member of the Executive Committee of the International Copper Association since July 2006.

Oscar Groeneveld BE (Mining), MSc, DIC age 53.

Skills and experience:Oscar has been with the Group for over 30 years and was appointed chief executive of the Aluminium group in October 2004. Oscar has qualifications in engineering, science and management and is also responsible for Rio Tinto Japan, Kennecott Land and heads the Group's safety leadership panel. He has occupied senior roles in coal, aluminium and technology and was the Copper group chief executive from 1999 to 2004. He was an executive director of the Group from 1998 to 2004.

External appointments (current and recent):

Director of Australian Aluminium Council since 2004.

Chairman of International Aluminium Institute since 2006.

Director of Rio Tinto plc and Rio Tinto Limited between 1998 and 2004.

Director of Freeport-McMoRan Copper & Gold Inc between 1999 and 2004.

Director of Palabora Mining Company Limited between 1999 and 2004.

Keith Johnson BSc (Mathematics), MBA age 45.

Skills and experience: Keith was appointed Group executive Business Resources on 1 June 2007 having been chief executive, Diamonds since 2003. He holds degrees in mathematics and management and is a Fellow of the Royal Statistical Society. Prior to joining Rio Tinto he worked in analytical roles in the UK Treasury, private consulting and the oil industry. He joined Rio Tinto in 1991 and has held a series of management positions including head of Business Evaluation and managing director of Comalco Mining and Refining.

External appointments (current and recent):

None.

Andrew Mackenzie BSc (Geology), PhD (Chemistry) age 50.

Skills and experience: Andrew was appointed chief executive Diamonds and Minerals on 1 June 2007. He joined Rio Tinto in 2004 as chief executive Industrial Minerals from BP Petrochemicals where he was group vice

president. He spent 22 years with BP primarily in the UK and North America in senior positions including head of Capital Markets in BP Finance, chief reservoir engineer with oversight of oil and gas reserves and production, head of Government and Public Affairs worldwide and group vice president Technology which included responsibility for research and development and engineering.

External appointments (current and recent):

Director of Centrica plc since 2005. Trustee of Demos since 1998.

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Grant Thorne BSc (Hons) Metallurgy, PhD (Mineral Processing) age 57.

Skills and experience:

Grant was appointed Group executive Technology and Innovation on 1 June 2007. After tertiary study at the University of Queensland, he joined the Group in 1975 and has held senior operational roles in base metals, aluminium and coal. He was Vice-president of Research and Technology for Comalco from 1994 to 1995. His service has included appointments in Australia, Indonesia, Papua New Guinea and UK. Prior to his current appointment, he was Managing Director of Rio Tinto's coal business in Australia. Grant is a Fellow and Chartered Professional (Management) of the Australasian Institute of Mining and Metallurgy.

External appointments (current and recent):

Member of the Coal Industry Advisory Board to the International Energy Agency from 2002 to 2006
Director of The Wesley Research Institute from 2002 to 2003
President of the Queensland Resources Council from 2002 to 2004
Managing Director of Coal and Allied Industries from 2004 to 2006

Sam Walsh B Com (Melbourne) age 57.

Skills and experience:

Sam was appointed chief executive of the Iron Ore group in 2004. He joined Rio Tinto in 1991, following 20 years in the automotive industry at General Motors and Nissan Australia. He has held a number of management positions within the Group, including managing director of Comalco Foundry Products, CRA Industrial Products, Hamersley Iron Sales and Marketing, Hamersley Iron Operations, vice president of Rio Tinto Iron Ore (with responsibility for Hamersley Iron and Robe River) and from 2001 to 2004 chief executive of the Aluminium group. Sam is also a Fellow of the Australian Institute of Management, the Australian Institute of Company Directors and the Australasian Institute of Mining and Metallurgy.

External appointments (current and recent):

Director of the Australian Mines and Metals Association, between 2001 and 2005.
Director of the Australian Chamber of Commerce and Industry, between 2003 and 2005.
Director of the Committee for Perth Ltd since 2006.

COMPANY SECRETARIES

Anette Lawless MA, FCIS age 50.

Skills and experience:

Anette joined Rio Tinto in 1998 and became company secretary of Rio Tinto plc in 2000. Before joining Rio Tinto, she spent 11 years with Pearson plc, five of which as company secretary. She qualified as a chartered secretary in 1989 and became a fellow of the ICSA in 1992. She also holds an MA from the Copenhagen Business School.

External appointments (current and recent):

Member of the Regulatory Decisions Committee of the UK Financial Services Authority from 2001 to 2006.

Stephen Consedine B Bus CPA age 45.

Skills and experience: Stephen joined Rio Tinto in 1983 and has held various positions in Accounting, Treasury, and Employee Services before becoming company secretary of Rio Tinto Limited in 2002. He holds a bachelor of business degree and is a certified practising accountant.

External appointments (current and recent):

None.

EMPLOYEES

Information on the Group's employees including their costs, is on pages 71 to 74, and in notes 4 and 34 to the 2006 f*inancial statements*.

REMUNERATION

The Remuneration report to shareholders dated 24 February 2006 has been reproduced below, except that the page numbers have been revised to reflect those in this combined annual report on Form 20-F, Tables 3, 4 and 5 have been augmented to show share interests as at the latest practicable date.

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Remuneration report

Introduction

This report forms part of the *Directors' report* and covers the following information:

- a description of the *Remuneration committee* and its duties;
- a description of the policy on directors', product group chief executives' and company secretaries' remuneration;
- a summary of the terms of executive directors' and product group chief executives' contracts and non executive directors' letters of appointment;
- details of each director's and product group chief executive's remuneration and awards under long term incentive plans and the link to corporate performance;
- details of directors' and product group chief executives' interests in Rio Tinto shares; and
- graphs illustrating Group performance, including relative to the HSBC Global Mining Companies' Index.

Remuneration committee

The following independent, non executive directors were members of the *Remuneration committee* during 2006:

- Sir Richard Sykes (chairman)
- Sir David Clementi
- Michael Fitzpatrick
- Richard Goodmanson
- Andrew Gould

The committee met four times during 2006 and members' attendance is set out on page 123. The committee's responsibilities are set out in its Terms of Reference, which can be viewed on Rio Tinto's website. They include:

- recommending remuneration policy relating to the executives to the board;
- reviewing and determining the remuneration of the product group chief executives and the company secretary of Rio Tinto plc;
- reviewing and agreeing management's strategy for remuneration and conditions of employment for managers other than the executives;
- monitoring the effectiveness and appropriateness of general executive remuneration policy and practice; and
- reviewing the chairman's fees.

Jeffery Kortum, global practice leader, Remuneration, attends the committee's meetings in an advisory capacity. The chairman, Paul Skinner, the chief executive, Leigh Clifford and Tom Albanese, the chief executive designate, also participated in meetings at the invitation of the committee, but were not present when issues relating to their own remuneration were discussed. Anette Lawless, the company secretary of Rio Tinto plc, acts as secretary to the committee, but was not present when issues relating to her remuneration were discussed.

In 2004, the committee appointed Kepler Associates, an independent remuneration consultancy, to provide advice on executive remuneration matters. Apart from providing specialist remuneration advice, Kepler Associates has no links to the Group.

To carry out its duties in accordance with its Terms of Reference, the committee monitors global remuneration trends and developments and draws on a range of external sources of data, in addition to that supplied by Kepler Associates, including publications by remuneration consultants Towers Perrin, Hay Group, Mercer and Watson Wyatt.

Corporate governance

The committee reviewed its Terms of Reference in 2006 and concluded that, in the course of its business, it had covered the main duties set out in the Combined Code on Corporate Governance, published by the UK Financial Reporting Council (the Code), and Principle 9 of the Australian Securities Exchange (ASX) Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (the ASX Principles), and was constituted in accordance with the requirements of the Code and the ASX Principles.

The board considered the performance of the committee and confirmed that the committee had satisfactorily performed the duties set out in its Terms of Reference.

The 2006 *Remuneration report* was approved by shareholders at the 2007 annual general meetings.

Executive remuneration

Rio Tinto is subject to a number of different reporting requirements for the contents of the *Remuneration report* . The Australian Corporations Act requires certain disclosures in respect of the five highest paid executives below board level, and Australian and International accounting standards (AASB 124 and IAS 24 respectively) both require additionaldisclosures for □key management personnel□. The board has considered the definition of □key management personnel□ and has decided that, in addition to the executive and non executive directors, they comprise the six product group chief executives. In 2006, the five highest paid executives below board level in respect of whom disclosures are required are all product group chief executives. Throughout this report, the executive directors and the product group chief executives will collectively be referred to as the executives.

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Board policy

Rio Tinto operates in global, as well as local markets, where it competes for a limited resource of talented executives. It recognises that to achieve its business objectives, the Group needs high quality, committed people.

Rio Tinto has therefore designed an executive remuneration policy to support its business goals by enabling it to attract, retain and appropriately reward executives of the calibre necessary to pro duce very high levels of performance. This policy is regularly reviewed to take account of changing market, industry and economic circumstances, as well as developing Group requirements.

The main principles of the Group's executive remuneration policy are:

- to provide total remuneration which is competitive in structure and quantum with comparator companies' practices in the regions and markets within which the Group operates;
- to achieve clear alignment between total remuneration and delivered business and personal performance, with particular emphasis on shareholder value creation and performance in the health, safety and environmental areas;
- to link variable elements of remuneration to the achievement of challenging performance criteria that are consistent with the best interests of the Group and shareholders over the short, medium and long term;
- to provide an appropriate balance of fixed and variable remuneration; and
- to provide appropriate relativities between executives within Rio Tinto, in order to support executive placements to meet the needs of the Group.

The composition of total remuneration packages for management, including the remuneration of the company secretaries, is designed to provide an appropriate balance between fixed and variable components. This is in line with Rio Tinto's stated objective of aligning total remuneration with personal and business performance. Details of the executives' remuneration composition are set out in Table 1 on pages 107 to 108.

The Group's return to shareholders over the last five years is set out in the table on page 101.

Remuneration components

Base salary

Base salaries for executives are reviewed annually and adjusted as necessary, taking in to account the nature of the individual executive's role, external market trends and business and personal performance. The *Remuneration committee* uses a range of international companies of a similar size, global reach and complexity to make this comparison.

Executive remuneration is explicitly related to business performance through the following long and short term arrangements:

Short term incentive plan (STIP)

STIP is a cash bonus plan, designed to support overall remuneration policy by:

- focusing participants on achieving calendar year performance goals which contribute to sustainable shareholder value; and
- providing significant bonus differential based on performance against challenging personal, business, and other targets, including safety.

The *Remuneration committee* reviews and approves performance targets and objectives for ex ecutives annually. Executive directors' STIP payments are linked to three performance criteria: Group financial performance, Group safety performance and personal performance. Product group chief executives' STIP payments are linked to Group and product group financial performance, product group safety performance and personal performance. Group and product group financial performance is partly measured on an actual underlying earnings basis and partly on a basis normalised for fluctuations of market prices and exchange rates.

The target level of bonus for executives for 2007 is 60 per cent of salary, the same as 2006. Executives may receive up to twice their target (ie up to 120 per cent of salary) for exceptional performance against all criteria.

Details relating to STIP awards for 2006 are on page 104.

Long term incentives

Shareholders approved two long term incentives for senior employees including executives at the annual general meetings in 2004, the Share Option Plan and the Mining Companies Comparative Plan.

These are intended to provide the *Remuneration committee* with a means of linking management's rewards to Group performance. Total shareholder return (TSR) was, at the time of the introduction of these plans, considered the most appropriate measure of a company's performance for the purpose of share based long term incentives and a TSR performance measure was therefore applied to both plans. The committee intends to review the incentive structure and performance criteria over the next 12 months to ensure continued relevance and effectiveness.

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Share Option Plan (SOP)

Each year, the *Remuneration committee* considers whether a grant of options should be made under the SOP, and if so, at what level. In arriving at a decision, the committee takes into consideration the personal performance of each executive as well as local remuneration practice. The maximum grant under the SOP is three times salary, based on the average share price over the previous financial year. Under the SOP, options are granted to purchase shares at a weighted average market price using the closing share price for the five days preceeding the grant. No options are granted at a discount and no amount is paid or payable by the recipient upon grant of the options. Grants made to executives are set out in Table 5 on pages 116 to 121.

No options will become exercisable unless the Group has met stretching performance conditions. In addition, before approving any vesting and regardless of performance against the respective performance conditions, the *Remuneration committee* retains discretion to satisfy itself that the TSR performance is a genuine reflection of underlying financial performance.

Under the plan, vesting is subject to Rio Tinto's TSR equalling or outperforming the HSBC Global Mining Index over a three-year performance period. The HSBC Global Mining Index covers the mining industry in 26 countries. Rio Tinto's TSR is calculated as a weighted average of the TSR of Rio Tinto plc and Rio Tinto Limited. If TSR performance equals the index, the higher of one third of the original grant or 20,000 options will vest (subject to the actual grant level not being exceeded). The full grant vests if the TSR performance is equal to or greater than the HSBC Global Mining Index plus five per cent per annum. Historically, TSR performance at this level has been equivalent to the upper quartile of companies in the index. Between these points, options vest on a sliding scale, with no options becoming exercisable for a three year TSR performance below the index.

Options granted under the 2004 plan before 31 December 2006 will be subject to a single fixed base re-test five years after grant if they have not vested after the initial three year performance period, with options granted after 31 December 2006 not subject to any re-test. These latter options will, therefore, lapse if they do not vest at the conclusion of the three year performance period.

Prior to any options being released to participants for exercise, the Group's performance against the criteria relevant to the SOP is examined and verified by the external auditors. If Rio Tinto were subject to a change of control or a company restructuring, options would become exercisable subject to the satisfaction of the performance condition measured at the time of the takeover or restructure.

Where an option holder dies in service, qualifying options vest immediately, regardless of whether the performance conditions have been satisfied. The estate will have 12 months in which to exercise the options.

All SOP grants made prior to 2004 under the rules approved by shareholders in 1998 have now vested in full. The SOP grant made in 2004 was due for testing against the performance condition in 2007. The performance condition was not achieved and these options have therefore not vested.

SOP options may, upon exercise, be satisfied by treasury shares, the issue of new shares or the purchase of shares on market.

Mining Companies Comparative Plan (MCCP)

Rio Tinto's performance share plan, the MCCP, provides participants with a conditional right to receive shares. The maximum conditional award under the current MCCP is two times salary, calculated using the average share price over the previous financial year. Awards made to executive directors and product group chief executives are set out in Table 4 on pages 112 to 115.

The conditional awards will only vest if performance conditions approved by the committee are satisfied. Again, were there to be a change of control or a company restructuring, the awards would only vest subject to the satisfaction of the performance condition measured at the time of the takeover or restructuring. Additionally, if a performance period is deemed to end during the first 12 months after the conditional award is made, that award will be reduced pro-rata. These conditional awards are not pensionable.

The performance condition compares Rio Tinto's TSR with the TSR of a comparator group of 15 other international mining companies over the same four year period. The composition of this comparator group is reviewed regularly by the committee to provide continued relevance in a consolidating industry. The members of this group relevant to the 2006 conditional award are listed at the bottom of the ranking table below. The comparator group for the 2007 conditional award will be determined by the *Remuneration committee* prior to approving the award.

The following table shows the percentage of each conditional award which will be received by executives based on Rio Tinto's four year TSR performance relative to the comparator group for conditional awards made after 1 January 2004:

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Ranking in comparator group Percentage vesting:	1st-2nd	3rd	4th	5th	6th	7th	8th	9th-16th
%	150	125	100	83.75	67.5	51.25	35	—

The historical ranking of Rio Tinto in relation to the comparator group is shown in the following table:

Ranking of Rio Tinto versus comparator companies

Period	Ranking out of 16
1993 - 97	4
1994 - 98	4
1995 - 99	2
1996 - 00	2
1997 - 01	2
1998 - 02	3
1999 - 03	7
2000 - 04	11
2001 - 05	10
2002 - 06	10

Note
Comparator companies for the 2006 Conditional Award were:
Alcan, Alcoa, Anglo American, Barrick Gold, BHP Billiton, Cameco Corporation, Cia Vale do Rio Doce, Freeport-McMoRan Copper & G old, Grupo Mexico, INCO, Newmont, Peabody, Phelps Dodge, Teck Cominco and Xstrata
Before awards are released to participants, the external auditors and Kepler Associates independently review the Group's TSR performance compared to that of the comparator companies.

Awards are released to participants as either Rio Tinto plc or Rio Tinto Limited shares or as an equivalent amount in cash. In addition, for MCCP Conditional Awards made after 1 January 2004, a cash payment equivalent to the dividends that would have accrued on the vested number of shares over the four year period will be made to executives.

Shares to satisfy the vesting may be treasury shares, shares purchased in the market, by subscription, or, in the case of Rio Tinto Limited, transfers of existing shares.

New restricted share plan
The *Remuneration committee* has approved a restricted share plan for senior employees below director and product group chief executive level. The new plan is designed to support the Group's ability to attract and retain key staff in an increasingly tight and competitive labour market. Under the new plan, eligible employees may receive a conditional award of shares which will vest, wholly or partly, when performance conditions laid down by the *Remuneration committee* at the time of the award have been satisfied. Shares to satisfy these awards will be purchased in the market. No directors are eligible to participate and no new shares will be issued to satisfy awards under this plan.

Post employment benefits
Under current pension arrangements, executives in the UK can take their pension benefits unreduced for early payment from the age of 60. Executives with Australian employment contracts would normally be expected to retire at age 62. In 2004, Leigh Clifford's contractual retirement age was reduced from 62 to 60, with a corresponding change to his retirement arrangements.

United Kingdom

Guy Elliott and Tom Albanese participate in the non contributory Rio Tinto Pension Fund, a funded occupational pension scheme approved by HM Revenue and Customs. The Fund provides both defined benefit and defined contribution benefits. In April 2005, the defined benefit section of the Fund was closed to new participants.

Members of the defined benefit section of the Fund who retire early may draw a pension reduced by approximately four per cent a year for each year of early payment. Spouse and dependants pensions are also provided. Pensions paid from this section are guaranteed to increase annually in line with increases in the UK Retail Price Index subject to a maximum of ten per cent per annum. Increases above this level are discretionary.

During 2006, there was no requirement for Company cash contributions to be paid into the Rio Tinto Pension Fund.

Rio Tinto reviewed its pension policy in the light of the legislation changes introduced from April 2006. The Rio Tinto Pension Fund was amended to incorporate a fund specific limit equivalent to the earnings cap for all members previously affected; unfunded benefits continue to be provided, where already promised, on pensionable salary above the fund specific limit.

Guy Elliott is accruing a pension of 2.3 per cent of basic salary for each year of service with the Company to age 60. Proportionally lower benefits are payable on leaving service or retirement prior to the age of 60. The unfunded arrangements described above will be utilised to deliver this promise to the extent not provided by the Fund.

Rio Tinto plc exercised discretion to allow Tom Albanese to join the Rio Tinto Pension Fund as a member of the

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defined benefit section on 1 July 2006 in recognition of his participation in one of the US defined benefit pension arrangements offered by Rio Tinto prior to that date. He is accruing a pension of two thirds of basic salary payable at the normal retirement age of 60, subject to completion of 20 years service with the Group, inclusive of benefits accrued under the US pension arrangements. Proportionally lower benefits are payable for shorter serv ice or, if having attained 20 years service, retirement is taken prior to the age of 60. His benefits under the Rio Tinto Pension Fund are restricted to the fund specific limit, with the balance provided through unfunded arrangements.

Australia

Leigh Clifford is a member of the Rio Tinto Staff Superannuation Fund, a funded superannuation fund regulated by Australian legislation. The fund provides both defined benefit and defined contribution benefits. Leigh Clifford is a defined benefit member, accruing lump sums payable on retirement. Retirement benefits are limited to a lump sum multiple of up to seven times final basic salary at age 62, although, as stated above, Leigh Clifford will retire at age 60. For retirement after 62, the benefit increases to up to 7.6 times average salary at age 65.

Death in service and disablement benefits are provided as lump sums and are equal to the prospective age 65 retirement benefit. Proportionate benefits are also payable on termination of employment for ill health or resignation.

Executives are not required to pay contributions. During 2006, Company cash contributions were paid into the Rio Tinto Staff Superannuation Fund to fund members defined benefit and defined contribution benefits.

Other pensionable benefits

The percentage of total remuneration which is dependent on performance is substantial. For Australian participants annual STIP awards are pensionable up to a maximum value of 20 per cent of basic salary. This results in a defined contribution payment equivalent to 20 per cent of the pensionable component of STIP and does not impact the defined benefit component. For the UK executive directors basic pay only is pensionable.

Details of directors pension and superannuation entitlements are set out in Table 2 on page 110.

Performance and non performance related remuneration

Total remuneration is a combination of fixed and performance related elements, each of which is described in this report. In addition, some executives have specific arrangements for remuneration outside these core elements. They include expatriate/secondment packages, which may include items such as housing benefit, assistance with incremental school fees and tax equalisation. Other compensation includes medical insurance, the provision of a company car and fuel, or an allowance in lieu, 401k contributions in the USA, annual leave accruals and professional advice. The total remuneration for executives shown in Table 1 includes these non performance related items, which are specific to the circumstances of each executive.

The performance related, or variable, elements are the short and long term incentive plans, which are linked to achievement of business and personal performance goals and are, therefore, at risk. The rest of the elements of the package are fixed, as they are not at risk, although some, such as base salary, are also related to performance.

Excluding post employment costs and expatriate secondment costs, employment costs and other benefits, the proportion of total direct remuneration provided by way of variable components, assuming target levels of performance, is approximately 68 per cent for the chief executive, 62 per cent for the finance director and between 62 per cent and 68 per cent for the product group chief executives. Variable components comprise the Short Term Incentive Plan, the Share Option Plan and the Mining Companies Comparative Plan (STIP, SOP and MCCP). The actual proportion of total direct remuneration provided by way of variable components is set out in Table 1 on pages 107 to 109 and may differ from these target percentages depending on Company and personal performance.

Share based remuneration not dependent on performance

Executives may participate in share and share option plans that apply to all employees at particular locations and for which neither grant nor vesting is subject to the satisfaction of a performance condition. These plans are consistent with standard remuneration practice whereby employees are offered share and option plan participation as part of their employment entitlements in order to encourage alignment with the long term performance of the Company.

Executives employed in the Rio Tinto plc part of the Group may participate in the Rio Tinto plc Share Savings

Plan, a savings-related plan which is open to employees in the UK and elsewhere. Under the plan, participants can save up to £250 per month, or equivalent in local currency, for a maximum of five years. At the end of the savings period participants may exercise an option over shares granted at a discount of up to 20 per cent to the market value at the time of the grant. The number of options to which participants are entitled is determined by the option price, the savings amount and the length of the savings contract. No consideration is paid or payable by the participant on receipt of the options. The UK section of this plan is Inland Revenue approved.

Eligible UK employees, including some of the executives, may also participate in the Rio Tinto Share Ownership Plan, an Inland Revenue approved share incentive plan which was approved by shareholders at the 2001 annual general meeting and introduced in 2002. Under this plan, participating employees can save up to £125 per month, which the plan administrator invests in Rio Tinto plc shares. Rio Tinto matches these purchases on a one-for-one basis. In addition, eligible employees may receive an annual award of Rio Tinto shares up to a maximum of five per cent of salary, subject to a cap of £3,000.

Executives employed in the Rio Tinto Limited part of the Group may elect to participate in the Rio Tinto Limited Share Savings Plan, also introduced in 2001, which is similar to the Rio Tinto plc Share Savings Plan.

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Service contracts

Each of the executives has a service contract with a Group company.

It is the Group's policy that executives' service contracts have no fixed term but are capable of termination giving no less than 12 months' notice. Notice periods for executives are as follows:

Notice periods

Name	Date of Agreement	Notice period	Remaining service period if less than 12 months
Executive directors			
Leigh Clifford	30 Mar 2005	12 months	7 months
Guy Elliott	19 Jun 2002	12 months	N/A
Tom Albanese	10 Apr 2006	12 months	N/A
Product group chief executives			
Preston Chiaro	30 Sep 2003	12 months	N/A
Oscar Groeneveld	1 Oct 2004	12 months	N/A
Bret Clayton	1 Jun 2006	12 months	N/A
Keith Johnson	12 Mar 2004	12 months	N/A
Andrew Mackenzie	4 May 2004	12 months	N/A
Sam Walsh	3 Aug 2004	12 months	N/A

Termination payments

Rio Tinto has retained the right to pay executives in lieu of notice. Given the wide variety of possible circumstances leading to early termination, the executives' service contracts do not provide explicitly for compensation, but in the event of early termination, it is the Group's policy to act fairly in all circumstances and the duty to mitigate would be taken into account. Compensation would not provide unmerited reward for poor performance.

There were no termination payments made in 2006.

Shareholding policy

In 2002, the committee decided that it would be appropriate to encourage executives to build up a substantial shareholding, aiming to reach a holding equal in value to two times base salary over five years. Details of executives' share interests in the Group are set out in Table 3 on page 111.

In 2006, the board recommended that non executive directors be encouraged to build up a shareholding equal in value to one year's base fees. To help facilitate this, the Companies have put in place share purchase plans under which non executive directors can elect to invest a proportion of their fees net of tax on a regular basis.

Remuneration paid in 2006

Performance of Rio Tinto, product groups and individual executives

2006 was another year of strong operational performance and was the third successive year of record results for

the Group.

To illustrate the performance of the Companies relative to their markets, graphs showing the performance of Rio Tinto plc in terms of TSR over the last five years, compared to the FTSE 100 Index and Rio Tinto Limited compared to the ASX All Ordinaries Index are reproduced below. A graph showing Rio Tinto's performance relative to the HSBC Global Mining Index is also included to illustrate the performance of Rio Tinto relative to other mining companies.

TSR (£) – Rio Tinto plc v FTSE 100

Total return basis Index 2001 = 100

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TSR (A$) Rio Tinto Limited v ASX All Share
Total return basis Index 2001 = 100

TSR (US$) Rio Tinto Group v HSBC Global Mining Index
Total return basis Index 2001 = 100

The effect of this performance on shareholder wealth, as measured by TSR, is detailed in the table below and the relationship between TSR and executive remuneration is discussed in the Executive remuneration and Remuneration components sections above.

Rio Tinto shareholder return 2002-2006

Year	Dividends per share paid during the year	Share price – Rio Tinto plc		Share price – Rio Tinto Limited		Total shareholder return (TSR)		
	US cents	1 Jan pence	31 Dec pence	1 Jan A$	31 Dec A$	plc %	Limited %	Combined %
2006	191.5	2,655	2,718	69.00	74.30	6.3	12.2	7.6
2005	83.5	1,533	2,655	39.12	69.00	77.5	81.3	78.4
2004	66.0	1,543	1,533	37.54	39.12	1.7	7.4	3.0
2003	60.5	1,240	1,543	33.95	37.54	27.9	14.7	24.8
2002	68.5	1,316	1,240	37.21	33.95	(2.3)	(5.4)	(3.0)

Rio Tinto Group and product group performance during 2006, and over relevant performance periods ending at 31 December 2006, impacted executives remuneration as follows:

Share based awards:

- MCCP – Rio Tinto ranked tenth in the sixteen company comparator group at the completion of the four-year performance period ending 31 December 2006, resulting in zero vesting of the conditional award made to executives who were directors at the date of the conditional award. This group included Leigh Clifford, Guy Elliott and Oscar Groeneveld. The vesting shown in Table 4 on pages 112 to 115, for other product group chief executives, where relevant, is in accordance with the performance condition applicable to the 2003 award and represents 25 per cent of the original awards.
- SOP – Rio Tinto TSR growth over the three years ending 31 December 2006 did not achieve the level required by the applicable performance condition. This grant will therefore not vest in 2007, but will be subject to one retest after a further two years.

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Annual cash bonus

Cash bonuses (STIP) in respect of the 2006 performance period, to be paid in March 2007, are set out in Table 1 on page 108 and the percentages awarded to each executive (or forfeited) are set out in the table on page 103. These bonuses were approved by the committee on the basis of delivered performance against financial, safety and personal targets and objectives for each executive.

Financial performance was assessed against underlying earnings targets for the Group and product groups as relevant and established by the committee at the commencement of the performance period. The potential impact of fluctuations in exchange rates and some prices are outside the control of the Group. The committee therefore compares, on an equal weighting basis, both actual results and underlying performance. This approach is designed to ensure that the annual bonus reflects financial results and addresses underlying performance excluding the impact of prices and exchange rates. The committee retains discretion to consider underlying business performance in deciding STIP awards.

The safety measures included Group or relevant product group lost time injury frequency rates (LTIFR) and overall assessment of progress against improvement targets in other safety measures, including all injury frequency rates (AIFR). These measures are chosen as they reflect the priority of safety at all Rio Tinto operations.

Personal performance targets and objectives were established for each executive at the start of the performance period. These comprise a balanced set of measures for each individual that reflect current operational performance, as well as progress on initiatives and projects designed to grow the value of each business unit and the Rio Tinto portfolio. The targets and objectives chosen enable personal performance and the benefit accruing to shareholders in the long term to be mirrored in each of the executives' 'at risk' remuneration.

To achieve linkage between business/financial and personal/non-financial performance and remuneration, each executive director's STIP payment is calculated as a percentage of salary in accordance with the formula set out below:

		Business / financial (score = 0% to 133%)			Personal / non financial (score = 0% to 133%)
Target STIP (60%)	x	75% weight Group financial results	25% weight Group safety performance	x	Personal targets and objectives

For each product group chief executive, STIP payments are calculated as a percentage of salary in accordance with the formula set out below:

		Business / financial (score = 0% to 133%)			Personal / non financial (score = 0% to 133%)	
Target STIP (60%)	x	40% weight Group financial results	60% weight Product group financial results	x	25% weight Product group safety	75% weight Personal targets and objectives

Strong Group financial performance for 2006 resulted in a STIP score at 117.2 per cent for this component. Financial performance for each product group varied and the *Remuneration committee* approved STIP scores ranging from 81 per cent of target to 120 per cent of target (maximum is 133 per cent) for this component. Group safety performance resulted in the *Remuneration committee* approving a score of 120 per cent of target (maximum is 133 per cent) for this component.

Product group safety performance varied and STIP scores ranged from 90 per cent of target to 150 per cent

of target (where 150 per cent is the maximum achievable) for this component. Consequently, total STIP awards for executives ranged from 68.7 per cent to 92 per cent of salary (57 per cent to 77 per cent of maximum).

Each of the results set out below therefore reflect the above, including a second successive year of record results, strong operational performance and portfolio initiatives to secure future value for the business across the Group, as well as individual considerations as outlined:

Leigh Clifford

- The committee assessed personal performance as above target and the overall STIP award was 153.3 per cent of target (76.6 per cent of maximum).

Guy Elliott

- The committee assessed personal performance as above target and the overall STIP award was 153.3 per cent of target (76.6 per cent of maximum).

Tom Albanese

- The committee assessed product group financial and safety performance as well as personal performance as above target. The overall STIP award was 147.6 per cent of target (73.8 per cent of maximum).

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Preston Chiaro
- The committee assessed product group financial performance as below target and safety and personal performance as above target. The overall STIP award was 114.5 per cent of target (57.3 per cent of maximum).

Bret Clayton (from 1 June 2006)
- The committee assessed product group financial and safety performance as well as personal performance as above target. The overall STIP award was 133.3 per cent of target (66.6 per cent of maximum).

Oscar Groeneveld
- The committee assessed product group financial performance and personal performance as above target and safety performance as below target. The overall STIP award was 136.2 per cent of target (68.1 per cent of maximum).

Keith Johnson
- The committee assessed product group financial and safety performance as well as personal performance as above target. The overall STIP award was 149.7 per cent of target (74.8 per cent of maximum).

Andrew Mackenzie
- The committee assessed product group financial and safety performance as well as personal performance as above target. The overall STIP award was 151.5 per cent of target (75.8 per cent of maximum).

Sam Walsh
- The committee assessed product group financial performance as below target, safety performance at target and personal performance as above target. The overall STIP award was 116.7 per cent of target (58.3 per cent of maximum).

Share based payment long term incentives granted in 2006

Options over either Rio Tinto plc or Rio Tinto Limited shares as appropriate were granted to each executive under the Share Option Plan on 7 March 2006. The *Remuneration committee* reviewed the performance condition applicable to this grant and confirmed that vesting will be dependent on Rio Tinto s TSR relative to the HSBC Global Mining Index over a three year performance period. Share options granted are included in Table 5 on pages 116 to 121.

A conditional award of performance shares in either Rio Tinto plc or Rio Tinto Limited shares was made to each executive under the MCCP on 7 March 2006. The *Remuneration committee* reviewed the performance condition applicable to the conditional award and confirmed that vesting will be dependent on Rio Tinto s TSR relative to 15 other mining companies.

The percentages of maximum bonuses made to executives in respect of 2006 and grants vested in respect of performance periods ending 31 December 2006, as well as the percentages forfeited because the relevant Company or individual did not meet the performance criteria required for full vesting, are as follows:

Bonuses and grants made during or in respect of 2006

	STIP Cash[1]		SOP Options[2]		MCCP Shares[3]	
	% of maximum vested	% of maximum forfeited	% vested	% forfeited	% vested	% forfeited
Leigh Clifford	76.6	23.4	—	—	—	100
Guy Elliott	76.6	23.4	—	—	—	100
Tom Albanese	73.8	26.2	—	—	25	75
Preston Chiaro	57.3	42.7	—	—	25	75
Bret Clayton	66.6	33.4	—	—	25	75

Oscar Groeneveld	68.1	31.9	—	—	—	100
Keith Johnson	74.8	25.2	—	—	25	75
Andrew Mackenzie[4]	75.8	24.2	—	—	—	—
Sam Walsh	58.3	41.7	—	—	25	75

Notes
1. Paid in March 2007 in respect of 2006.
2. There was no vesting of the 2004 SOP options in March 2007.
3. Vesting of 2003 Conditional Award in February 2007.
4. Andrew Mackenzie joined in 2004 after the 2003 MCCP award had been made.

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Minimum and maximum total bonuses and grants 2007

The estimated maximum and minimum total value of bonuses and share and option-based compensation for the 2007 financial year are set out below.

	STIP Cash [1] Potential range of bonus payments in March 2008 in respect of 2007		SOP Options (% of March 2007 salary) [2,3]		MCCP Shares (% of March 2007 salary) [2,4]	
	Min US$	Max US$	Min	Max	Min	Max
Leigh Clifford[5]	□	2,231,890	□	300	□	200
Guy Elliott	□	1,449,432	□	200	□	140
Tom Albanese	□	1,451,788	□	300	□	200
Preston Chiaro	□	792,000	□	300	□	200
Bret Clayton	□	696,000	□	300	□	200
Oscar Groeneveld	□	1,355,640	□	200	□	140
Keith Johnson	□	930,936	□	200	□	140
Andrew Mackenzie	□	1,025,208	□	200	□	140
Sam Walsh	□	1,279,800	□	200	□	140

Notes

1. Based on eligibility at 1 March 2007 at exchange rates of £1 = US$1.964 and A$1 = US$0.790.
2. Grant/Conditional Award based on the average share price during 2006.
3. SOP Options to be granted in 2007 may, subject to achievement of the performance condition, vest in 2010. The maximum value of these options at the date of vesting would be calculated by multiplying the number of vested options by the intrinsic value at that time (ie the difference between the option exercise price and the current market price).
4. MCCP performance shares to be awarded conditionally in 2007 may, subject to achievement of the performance condition, vest in 2011. The maximum value of these shares at the date of vesting would be calculated by multiplying the number of vested shares by the intrinsic value at that time (ie the current market price plus, the value of dividends □earned□ on the vested shares during the performance period).
5. Leigh Clifford□s STIP, SOP option grant and MCCP conditional award will be reduced proportionally to reflect the actual pro portion of 2007 he was an employee of the Group.

OTHER DISCLOSURES

Executives□ external and other appointments

Executives are likely to be invited to become non executive directors of other companies. Rio Tinto believes that such appointments can broaden their experience and knowledge, to the benefit of the Group. It is Group policy to limit executives□ external directorships to one FTSE 100 company or equivalent and they are not allowed to take on the chairmanship of another FTSE 100 company.

Consequently, where there is no likelihood that such directorships will give rise to conflicts of interests, the board will normally give consent to the appointment, with the executive permitted to retain the fees earned. Details of fees earned are set out in the notes to Table 1 on pages 107 to 109.

Executives have agreed to waive any fees receivable from subsidiary and associated companies. One executive director waived US$1,390 during the period (2005: Nil).

Company secretary remuneration

The broad policy described above applies to the company secretary of each of Rio Tinto plc and Rio Tinto Limited. The secretaries participate in the same performance based remuneration arrangements as the executives. The individual performance measures for the secretaries□ annual cash bonus comprise Group and personal measures.

Their personal measures reflect the key responsibilities of the company secretarial role and included ensuring compliance with regulatory requirements, oversight of good corporate governance practice and the provision of corporate secretarial services.

Chairman and non executive director remuneration

Remuneration policy

Reflecting the board's focus on long term strategic direction and corporate performance rather than short term results, remuneration for the chairman and non executive directors is structured with a fixed fee component only, details of which are set out below and in Table 1 on pages 107 to 109. The board as a whole determines non executive directors' fees, although non executive directors donot vote on any changes to their own fees. Fees are set to reflect the responsibilities and time spent by the directors on the affairs of Rio Tinto. To reflect the commitment expected from directors, as well as market practice for similar companies, fees for committee chairmen and members were reviewed in December 2006. The new fees are set out in the table below.

It is Rio Tinto's policy that the chairman should be remunerated on a competitive basis and at a level which reflects his contribution to the Group, as assessed by the board. The chairman is not present at any discussion regarding

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his own remuneration and he does not participate in the Group's incentive plans or pension arrangements.

Letters of appointment

Non executive directors have formal letters of appointment setting out their duties and responsibilities. These letters are available for inspection at Rio Tinto plc's registered office prior to the annual general meeting and at the meeting itself. Each non executive director is appointed subject to periodic re-election by shareholders as detailed on page 124. There are no provisions for compensation payable on termination of any non executive director's appointment.

The chairman's letter of appointment summarises his duties as chairman of the Group and was agreed by the *Remuneration committee*. It stipulates that he is expected to dedicate at least three days per week on average to carry out these duties. The letter envisages that Paul Skinner will continue in the role of chairman until he reaches the age of 65 in 2009, subject to re-election as a director by shareholders, although the appointment may be terminated by either Rio Tinto or Paul Skinner giving six months' notice. Other than in this case, there is no provision for compensation payable on termination of his chairmanship or directorship.

Remuneration components

The following table sets out the annual fees payable to the chairman and the non executive directors in £/A$, as appropriate.

	As at 31 Dec 2006	As at 1 Jan 2006
Base fees:		
Chairman	£630,000	£600,000
Other directors	£60,000 / A$150,000	£60,000 / A$150,000
Additional fees:		
Senior independent director	£35,000	£35,000
Audit committee chairman	£30,000	£20,000
Audit committee member	£15,000 / A$37,500	£10,000
Remuneration committee chairman	£20,000	£15,000
Remuneration committee member	£10,000 / A$25,000	£5,000
Committee on social and environmental accountability chairman	£20,000	£10,000
Committee on social and environmental accountability member	£7,500 / A$18,750	£3,000 / A$7,500
Overseas meeting allowances:		
Long distance (flights over 10 hours per journey)	£4,000 / A$10,000	£4,000 / A$10,000
Medium distance (flights of 5-10 hours per journey)	£2,000 / A$5,000	£2,000 / A$5,000

No additional fee is payable to the chairman or members of the *Nominations committee* although this arrangement remains subject to review and will depend on the volume of committee business in future.

Rio Tinto does not pay retirement benefits or allowances tonon executive directors, nor do any of them participate in any of the Group's incentive plans. Where the payment of statutory minimum superannuation contributions for Australian non executive directors is required by the Australian superannuation guarantee legislation, these contributions are deducted from the directors' overall fee entitlements.

Remuneration paid during 2006

Details of the nature and amount of each element of remuneration paid to the chairman and non executive directors during 2006 are set out in Table 1 on pages 107 to 109. No post employment, long term or termination payments were paid and no share based payments made.

Auditable information

Under Part 3 of Schedule 7A to the United Kingdom Companies Act 1985, the information included in respect of the directors in the table immediately below, the information about the directors short term employee benefits (excluding employment costs), defined contribution pension costs and termination benefits in Table 1, 4 and 5 are auditable.

The Australian Securities Investments Commission issued an order dated 27 January 2006 (and amended on 22 December 2006) under which the information included in the Remuneration report to comply with paragraph 25 of Australian Accounting Standard AASB 124 Related Party Disclosures (relating to key management personnel compensation) is also auditable. This information comprises Tables 1, 3, 4 and 5 and the disclosures provided under the headings Executive remuneration, Remuneration components, Remuneration paid in 2006 and chairman and non executive director remuneration.

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Directors total remuneration as defined under Schedule 7A of the Companies Act 1985

	2006 US$000	2005 US$000
Chairman		
Paul Skinner	1,147	1,049
Non executive directors		
Ashton Calvert	179	132
Vivienne Cox	136	107
Sir David Clementi	153	138
Leon Davis		95
Sir Rod Eddington	130	43
Michael Fitzpatrick	109	
Sir Richard Giordano		80
Richard Goodmanson	156	127
Andrew Gould	171	142
Lord Kerr	142	130
David Mayhew	148	122
John Morschel		43
Sir Richard Sykes	217	188
Executive directors		
Robert Adams		220
Tom Albanese	1,295	
Leigh Clifford	3,576	3,093
Guy Elliott	2,070	1,872

Annual general meetings

Shareholders will be asked to vote on this Remuneration report at the Companies forthcoming annual general meetings1.

By order of the board

Anette Lawless

Secretary

Remuneration Committee

23 February 2007

Note

1. The shareholders approved the 2006 Remuneration report at the 2007 Annual general meetings.

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Table 1 – Directors' and senior management's total remuneration

	Short term employee benefits and costs						Other long term benefits	Value of share based awards [5]		
Stated in US$'000	Base salary	Cash bonus	Other cash based benefits[2]	Non-monetary benefits[2]	Second-ment costs[3]	Employ-ment costs [4]	Long Service [13]	MCCP [6]	SOP [7]	SSP/ Others [9]
Chairman										
Paul Skinner	1,114	–	31	2	–	145	–	–	–	–
Non executive directors										
Ashton Calvert	119	–	53	7	–	9	–	–	–	–
Vivienne Cox	129	–	7	–	–	16	–	–	–	–
Sir David Clementi	138	–	15	–	–	18	–	–	–	–
Leon Davis[16]	–	–	–	–	–	–	–	–	–	–
Sir Rod Eddington	109	–	21	–	–	7	–	–	–	–
Michael Fitzpatrick[11]	74	–	35	–	–	6	–	–	–	–
Sir Richard Giordano[16]	–	–	–	–	–	–	–	–	–	–
Richard Goodmanson	138	–	18	–	–	–	–	–	–	–
Andrew Gould	156	–	15	–	–	–	–	–	–	–
Lord Kerr	135	–	7	–	–	17	–	–	–	–
David Mayhew[12]	133	–	15	–	–	–	–	–	–	–
John Morschel[16]	–	–	–	–	–	–	–	–	–	–
Sir Richard Sykes[16]	202	–	15	–	–	–	–	–	–	–
Executive directors										
Robert Adams[16]	–	–	–	–	–	–	–	–	–	–
Tom Albanese[11,13,14]	899	842	–	38	(85)	114	378	(115)	599	13
Leigh Clifford[15]	1,611	1,598	148	3	156	408	–	(1,162)	1,090	3
Guy Elliott	1,016	1,011	28	6	–	258	–	(614)	512	11
Product group chief executives										
Preston Chiaro[14]	591	412	21	9	205	26	–	(119)	444	7
Bret Clayton	429	349	50	3	427	36	–	64	102	12
Oscar Groeneveld[13]	962	839	–	37	51	95	359	(606)	418	2
Keith Johnson	663	644	–	35	–	167	–	(54)	325	9
Andrew MacKenzie	737	723	–	32	–	162	–	57	267	11
Chris Renwick[16]	–	–	–	–	–	–	–	–	–	–
Sam Walsh	887	664	–	6	51	110	–	(28)	381	2
2006 Remuneration	**10,242**	**7,082**	**479**	**178**	**805**	**1,594**	**737**	**(2,577)**	**4,138**	**70**

2005 Remuneration	9,223	5,981	422	314	1,568	1,696	737	7,484	4,600	70

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Table 1 – Directors' and senior management's total remuneration

	Post employment costs[9]			Termination benefits		Remuneration mix[10]			Total remuneration		
	Pension – Defined										
Stated in US$'000	Benefits	Contrib-utions	Medical costs	Post service payments	Gifts	Fixed as % 2006 total	At-risk as % 2006 total	Options as % total	**2006**	2005[13,14]	Currency of actua payment
Chairman											
Paul Skinner	–	–	–	–	–	100.0	–	–	**1,292**	1,182	
Non executive directors											
Ashton Calvert	–	–	–	–	–	100.0	–	–	**188**	139	As
Vivienne Cox	–	–	–	–	–	100.0	–	–	**152**	120	
Sir David Clementi	–	–	–	–	–	100.0	–	–	**171**	154	
Leon Davis[16]	–	–	–	–	–	–	–	–	–	100	
Sir Rod Eddington	–	–	–	–	–	100.0	–	–	**137**	48	
Michael Fitzpatrick[11]	–	–	–	–	–	100.0	–	–	**115**	–	
Sir Richard Giordano[16]	–	–	–	–	–	–	–	–	–	88	
Richard Goodmanson	–	–	–	–	–	100.0	–	–	**156**	127	
Andrew Gould	–	–	–	–	–	100.0	–	–	**171**	142	
Lord Kerr	–	–	–	–	–	100.0	–	–	**159**	145	
David Mayhew[12]	–	–	–	–	–	100.0	–	–	**148**	123	
John Morschel[16]	–	–	–	–	–	–	–	–	–	46	As
Sir Richard Sykes[12]	–	–	–	–	–	100.0	–	–	**217**	189	
Executive directors											
Robert Adams[16]	–	–	–	–	–	–	–	–	–	2,114	
Tom Albanese[11,13,14]	707	–	–	–	–	60.5	39.5	17.7	**3,390**	3,962	
Leigh Clifford[15]	346	60	–	–	–	64.1	35.9	25.6	**4,261**	6,704	
Guy Elliott	707	–	–	–	–	68.6	31.4	17.5	**2,935**	3,897	
Product group chief executives											
Preston Chiaro[14]	168	12	5	–	–	58.2	41.8	25.0	**1,781**	2,983	US
Bret Clayton	57	13	3	–	–	65.9	34.1	6.6	**1,545**	900	US
Oscar Groeneveld[13]	204	50	–	–	–	72.9	27.1	17.5	**2,411**	3,509	As
Keith Johnson	385	–	–	–	–	57.5	42.5	15.0	**2,174**	2,284	
Andrew MacKenzie	475	–	–	–	–	57.1	42.9	10.9	**2,464**	2,217	
Chris Renwick[16]	–	–	–	–	–	–	–	–	–	1,225	As
Sam Walsh	220	32	–	–	–	56.2	43.8	16.5	**2,325**	3,151	As

2006 Remuneration	**3,269**	**167**	**8**	□	□	**26,192**	
2005 Remuneration	2,199	114	12	1,115	14		35,549
Short term employee benefits and costs						**20,380**	19,204
Other long term benefits						**737**	737
Value of share based awards[5]						**1,631**	12,154
Post employment costs[9]						**3,444**	2,325
Termination benefits						□	1,129
						26,192	35,549

Notes to Table 1

1. The total remuneration is reported in US dollars. The amounts, with the exception of the annual cash bonus, can be converted into sterling at the rate of US$1 = £0.5432 or alternatively into Australian dollars at the rate of US$1 = A$1.329, each being the average exchange rate for 2006. The annual cash bonus is payable under the STIP and this may be converted at the 2006 year end exchange rate of US$1 = £0.5092 to a scertain the sterling equivalent or alternatively, US$1 = A$1.2653 to calculate the Australian dollar value.
2. Other cash and non cash based benefits are described in the Remuneration report on page 95 to 121. Cash based benefits include car, fuel, overseas meeting allowances and cash in lieu of holiday. The amounts shown as paid to non executive directors relate entirely to overseas meeting allowances. Non monetary benefits include heathcare, 401K contributions in the US, the provision of a car, annual leave accruals and professional advice.
3. Secondment costs comprise housing, education, tax equalisation and relocation payments made to and on behalf of executive directors and product group chief executives living outside their home country. The figure in respect of Tom Albanese reflects a tax refund to the Company during the course of the year.
4. Employment costs comprise social security contributions and accident insurance premiums in the UK and US and payroll taxes in Australia paid by the employer as a direct additional cost of hire.
5. The value of share based awards has been determined in accordance with the recognition and measurement requirements of IFRS2 □Share-based Payment□. The fair value of awards granted under the Rio Tinto Share Option Plan (the SOP) and the Rio Tinto Share Savings Plan (the SSP) have been calculated at their dates of grant using an independent lattice based option valuation model provided by external consultants, Lane Clark and Peacock LLP. The fair value of awards granted under the Mining Companies Comparative Plan (the MCCP) has been based on the

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market price of shares at the measurement date adjusted to reflect the number of awards expected to vest based on the current and anticipated relative TSR performance and, where relevant, for non receipt of dividends between measurement date and date of vest. The failure of the 2003 conditional award to vest for directors reduced the projected value of future awards, as calculated in accordance with the relevant accounting standards. This in turn led to a negative MCCP value arising for certain individuals to offset earlier valuations which are now, under these accounting standards, considered over-valued. Further details of the valuation methods and assumptions used for these awards ar e included in the note 45 (Share based payments). The non executive directors do not participate in the long term incentive share schemes. The fair value of other share based awards is measured at the purchase cost of the shares from the market.

6. The number of conditional shares awarded to executive directors and senior executives under the MCCP for the twelve month period ending 31 December 2006 are shown in Table 4 of this report. The MCCP is stated under primary emoluments to reflect the treatment of the plan as a cash settled share based payment.
7. The award of options to executive directors under the SOP and SSP during the twelve month period up to 31 December 2006 are shown in Table 5 of this report.
8. Details of other share based awards refer to the Rio Tinto Share Ownership Plan and the SSP, details of which are set out in the Remuneration report on page 95 to 121. Under the Share Ownership Plan UK executives are beneficiaries of free shares up to a maximum value of £3,000 (US$ 5,523) and may also contribute to purchase additional shares where the Company will match their personal contributions up to a maximum of £1,500 (US$ 2,762) per annum. Under these plans Guy Elliott, Keith Johnson and Andrew Mackenzie each received a total of £4,500 (US$8,285). American group product chief executives enjoy a Company matching of personal contribution for shares under the 401k arrangements up to a maximum of US$13,213. The Company matched personal contributions to the following values: Tom Albanese US$ 13,213, Preston Chiaro US$5,410 and Bret Clayton US$11,534.
9. The costs shown for defined benefit pension plans and post retirement medical benefits are the service costs attributable to the individual, calculated in accordance with IAS19. The cost for defined contribution plans is the amount contributed in the year by the company
10. Remuneration mix shows the proportions of total remuneration comprising fixed and variable pay components and the percentage of total remuneration comprising share options only. Fixed pay is represented by base salary, non monetary and other cash benefits, secondment and employment costs, post employment costs, long service payments, termination benefits and voluntary share based awards as detailed in Note 8. Variable pay is made up of the cash bonus and the values of the share based awards related to company performance.
11. Tom Albanese was appointed an executive director with effect from 7 March 2006, having previously been chief executive Copper and Exploration. The aggregate figure of US$3,390,000 reported above represents his remuneration for the full year. The part year since his appointment as executive director amounted to US$2,413,000 and is made up of short term benefits and costs of US$1,388,000, share based awards of US$360,000 and post employment costs of US$665,000. Michael Fitzpatrick was appointed a non executive director with effect from 6 June 2006. Bret Clayton became chief executive, Copper on 1 July 2006.
12. David Mayhew's fees were paid to JP Morgan Cazenove and Sir Richard Sykes's fees were paid to Imperial College. The fees disclosed above include £10,000 (US$ 18,410) paid to JP Morgan Cazenove for David Mayhew's attendance at *Audit committee* meetings in his capacity as advisor.
13. Prior to Tom Albanese's appointment as an executive director and Oscar Groeneveld's transfer to product group chief executive, Aluminium and with a view to retaining their services, both were awarded a one-off three year retention bonus in April 2004 of 100 per cent of salary as at 1 March 2007 which may vest in October 2007, if they remain employed by Rio Tinto at that time. The maximum values for Tom Albanese and Oscar Groeneveld are US$1,134,000 and US$1,076,000 respectively. These amounts have been spread equally over the three year period on an accrual basis and are reported here as long service payments of US$378,000 for Tom Albanese and US$359,000 for Oscar Groeneveld .. The comparative figures for 2005 have similarly been adjusted and restated.
14. In 2005, the tax equalisation figures for Tom Albanese and Preston Chiaro, which were included under secondment costs, were overstated by US$524,894 and US$262,517 respectively. The 2005 total remuneration comparative figure shown above has been restated to reflect the adjustment.
15. In the course of the year, Leigh Clifford received US$139,533 in respect of his non Rio Tinto related directorship.
16. Leon Davis, Sir Richard Giordano and John Morschel retired on 29 April 2005. Robert Adams died on 27 January 2005 and Chris Renwick received a post retirement payment in 2005.

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Table 2 – Executive directors' pension entitlements (as at 31 December 2006)

			Accrued benefits				Transfer values			
	Age	Years of service completed	At 31 December 2005	At 31 December 2006	Change in accrued benefits during the year ended 31 December 2006	Change in accrued benefit net of inflation[1]	At 31 December 2005	At 31 December 2006	Change, net of personal contribs.	Transfer value of change in accrued benefit net of inflation[1]
UK directors			£'000 pa pension	£'000 pa pension	£'000 pa pension	£'000 pa pension	£'000	£'000	£'000	£'000
Tom Albanes[2,3]	49	25	115	126	11	7	729	882	153	137
Guy Elliott[2]	51	26	291	335	44	31	3,781	4,484	703	415
Australian director			A$'000 Lump sum	A$'000 Lump sum	A$'000 Lump sum	A$'000 Lump sum	A$'000	A$'000	A$'000	A$'000
Leigh Clifford[4,5]	59	36	13,877	15,341	1,464	1,006	13,877	15,341	1,464	1,006

Notes to Table 2

1 Price inflation is calculated as the increase in the relevant retail or consumer price index over the year to 31 December 2006.

2 Transfer values are calculated in a manner consistent with 'Retirement Benefit Schemes – Transfer Values (GN11)' published by the Institute of Actuaries and the Faculty of Actuaries.

3 Tom Albanese became a director of Rio Tinto plc and Rio Tinto Limited with effect from 7 March 2006; the figures shown cover the whole of 2006. He accrued pension benefits in the US plans for service up to 30 June 2006 and in the UK fund for subsequent service. The transfer value of his benefits in the US plans is represented by the Accumulated Benefit Obligation calculated on the accounting assumptions used for the Group's post retirement benefits disclosures. In addition, the employer paid $13,200 in respect of Tom Albanese into a 401k plan in the US for the period.

4 In addition, A$79,730 was credited to the account belonging to Leigh Clifford in the Rio Tinto Staff Superannuation Fund in relation to the pensionable element of his 2006 performance bonus.

5 The figures shown for Leigh Clifford include allowance for an enhancement to benefits granted in 2004, whereby his contractual retirement age was reduced from 62 to 60 and the pension multiple at age 60 was increased from 6.65 to 7.0. The figures as at 31 December 2005 shown in the 2005 Financial statements did not include this enhancement. As a result the accrued lump sum shown at the start of the year, of A$13,877,000, is higher than the figure disclosed in the 2005 Financial *statements, of A*$13,147,000.

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Table 3 – Directors' and senior management's beneficial interests in Rio Tinto shares

	Rio Tinto plc			Rio Tinto Limited			Movement		
	1 Jan 2006[1]	31 Dec 2006[2]	31 May 2007	1 Jan 20061[1]	31 Dec 2006 [2]	31 May 2007	Exercise of options [4]	Compen-sation [5]	Other [6]
Directors									
Tom Albanese[3,7,9]	23,261	41,814	44,839	—	—	—	35,350	3,025	(19,640)
Ashton Calvert	—	—	—	—	—	735	—	—	735
Sir David Clementi	—	147	308	—	—	—	—	—	308
Leigh Clifford	2,100	2,100	2,100	91,255	91,255	91,255	—	—	—
Vivienne Cox	381	528	692	—	—	—	—	—	311
Sir Rod Eddington	—	—	—	—	—	—	—	—	—
Guy Elliott[7]	47,827	48,033	48,644	—	—	—	—	357	470
Michael Fitzpatrick[3]	—	—	—	2,100	2,100	2,100	—	—	—
Richard Goodmanson	—	677	1,628	—	—	—	—	—	1,628
Andrew Gould	1,000	1,000	1,000	—	—	—	—	—	—
Lord Kerr	2,300	3,000	3,000	—	—	—	—	—	700
David Mayhew	2,500	2,500	2,500	—	—	—	—	—	—
Paul Skinner	5,409	5,598	5,657	—	—	—	—	—	248
Sir Richard Sykes	2,482	2,569	2,596	—	—	—	—	—	114
Product group chief executives									
Preston Chiaro[7,9]	60,762	60,927	62,585	—	—	—	490	—	1,823
Bret Clayton[3,7,9]	6,640	6,867	7,376	—	—	—	—	—	736
Oscar Groeneveld	3,000	3,000	3,000	79,502	66,790	66,790	171,000	—	(183,712)
Keith Johnson[7]	2,236	17,536	18,882	—	—	—	43,426	2,446	(29,216)
Andrew Mackenzie[10]	39,197	40,456	40,597	—	—	—	—	357	1,053
Sam Walsh	—	—	—	6,570	42,322	42,723	187,118	4,156	(155,121)

Notes to Table 3

1 Or date of appointment if later.

2 Or date of retirement or resignation if earlier.

3 Tom Albanese was appointed executive director on 7 March 2006 and took over as chief executive from Leigh Clifford with effect 1 May 2007. Bret Clayton was appointed chief executive Copper on 1 July 2006. Michael Fitzpatrick was appointed non executive director on 6 June 2006.

4 Shares obtained through the exercise of options under the Rio Tinto Share Savings Plan or the Rio Tinto Share Option Plan. The number of shares retained may differ from the number of options exercised.

5 Shares obtained through the Rio Tinto Share Ownership Plan and/or vesting of awards under the Mining Companies Comparative Plan.

6 Share movements due to sale or purchase of shares, shares received under the Dividend Reinvestment Plan, shares purchased/sold through the Rio Tinto America Savings Plan or non executive directors share purchase plan.

7 These executives also have an interest in a trust fund containing 864 Rio Tinto plc shares at 31 December 2006 (1 January 2006: 835 Rio Tinto plc shares) as potential beneficiaries of the Rio Tinto Share Ownership Trust. At 8 June 2007 this trust fund contained 873 Rio Tinto plc shares.
8 Shares in Rio Tinto plc are ordinary shares of ten pence each. Shares in Rio Tinto Limited are ordinary shares.
9 The shareholdings of Tom Albanese, Preston Chiaro and Bret Clayton include Rio Tinto plc ADRs held through the Rio Tinto America Savings Plan.
10 Andrew Mackenzie's 31 December 2005 balance was understated in the 2005 Remuneration report by ten Rio Tinto plc shares.

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Table 4 – Directors' and senior management's awards under long term incentive plans

			Mining Companies Comparative Plan					Plan terms and co			
	Conditional award granted	Market price at award	1Jan 2006[3]	Awarded[3]	Lapsed[3]	Vested[3]	31Dec 2006[10]	Perfor-mance period concludes	Date award vests	Market price at vesting	M [5]
Executive directors											
Tom Albanese	7 Mar 2003	1198p	19,274	—	14,456	4,818	—	31 Dec 2006	16 Feb 2007	2697p	
	22 Apr 2004	1276p	56,015	—	—	—	56,015	31 Dec 2007			
	9 Mar 2005	1839p	55,951	—	—	—	55,951	31 Dec 2008			
	7 Mar 2006	2630p	—	45,007	—	—	45,007	31 Dec 2009			
			131,240	45,007	14,456	4,818	156,973				
Leigh Clifford	7 Mar 2003	A$30.69	36,341	—	36,341	—	—	31 Dec 2006			
	22 Apr 2004	A$33.17	119,581	—	—	—	119,581	31 Dec 2007			
	9 Mar 2005	A$47.39	113,324	—	—	—	113,324	31 Dec 2008			
	7 Mar 2006	A$69.60	—	84,661	—	—	84,661	31 Dec 2009			
			269,246	84,661	36,341	—	317,566				
Guy Elliott	7 Mar 2003	1198p	22,923	—	22,923	—	—	31 Dec 2006			
	22 Apr 2004	1276p	51,550	—	—	—	51,550	31 Dec 2007			
	9 Mar 2005	1839p	51,081	—	—	—	51,081	31 Dec 2008			
	7 Mar 2006	2630p	—	40,670	—	—	40,670	31 Dec 2009			
			125,554	40,670	22,923	—	143,301				
Product group chief executives											
Preston Chiaro	7 Mar 2003	1198p	7,352	—	5,514	1,838	—	31 Dec 2006	16 Feb 2007	2697p	
	22 Apr							31 Dec			

	2004	1276p	46,995	—	—	—	46,995	2007			
	9 Mar 2005	1839p	42,351	—	—	—	42,351	31 Dec 2008			
	7 Mar 2006	2630p	—	34,182	—	—	34,182	31 Dec 2009			
			96,698	34,182	5,514	1,838	123,528				
Bret Clayton	7 Mar 2003	1198p	4,862	—	3,647	1,215	—	31 Dec 2006	16 Feb 2007	2697p	
	22 Apr 2004	1276p	13,315	—	—	—	13,315	31 Dec 2007			
	9 Mar 2005	1839p	11,539	—	—	—	11,539	31 Dec 2008			
	7 Mar 2006	2630p	—	10,767	—	—	10,767	31 Dec 2009			
			29,716	10,767	3,647	1,215	35,621				

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Table 4 – Awards to executive directors and product group chief executives under long term incentive plans

			Mining Companies Comparative Plan					Plan terms and c			
	Conditional award granted	Market price at award	1 Jan 2006[3]	Awarded[3]	Lapsed[3]	Vested[3]	31 Dec 2006[10]	Perfor-mance period concludes	Date award vests	Market price at vesting	
Oscar Groeneveld	7 Mar 2003	A$30.69	21,469	—	21,469	—	—	31 Dec 2006	—	—	
	22 Apr 2004	A$33.17	43,785	—	—	—	43,785	31 Dec 2007	—	—	
	9 Mar 2005	A$47.39	45,024	—	—	—	45,024	31 Dec 2008	—	—	
	7 Mar 2006	A$69.60	—	36,460	—	—	36,460	31 Dec 2009	—	—	
			110,278	36,460	21,469	—	125,269				
Keith Johnson	7 Mar 2003	1198p	8,186	—	6,140	2,046		31 Dec	16 Feb		