

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. Further discussion can be found under Business environment and markets on page 13, and under Commodity prices on pages 49 to 51.

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 customers 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 pages 47 to 49.

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 could find itself liable for undisclosed past acts or omissions of the acquired businesses without any adequate right of redress.

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.

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 a project's economics, the Group's asset values, costs, earnings and cash flows.

Ore reserve estimates

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 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 52.

Political and community

The Group has operations in jurisdictions having varying degrees of political 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. 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 occur, it might 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.