

## **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

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.

## 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