



## Edgar Filing: RIO TINTO PLC - Form 20-F

(Exact Name of Registrant as Specified in Its Charter)

(Exact Name of Registrant as Specified in Its Charter)

**England and Wales**  
(Jurisdiction of Incorporation or Organisation)

**Victoria, Australia**  
(Jurisdiction of Incorporation or Organisation)

**2 Eastbourne Terrace**  
**London, W2 6LG, United Kingdom**  
(Address of Principal Executive Offices)

**Level 33, 120 Collins Street**  
**Melbourne, Victoria 3000, Australia**  
(Address of Principal Executive Offices)

**Julie Parent, T: 514-848-8519, E: julie.parent@riotinto.com**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

|                               | Name of Each Exchange                                    |                       | Name of Each Exchange                                    |
|-------------------------------|--|-----------------------|--|
| Title of Each Class           | On Which Registered                                      | Title of Each Class   | On Which Registered                                      |
| American Depositary Shares*   | New York Stock Exchange                                  |                       |  |
| Ordinary Shares of 10p each** | New York Stock Exchange                                  |                       |  |
| 5.875% Notes due 2013         | New York Stock Exchange                                  | 5.875% Notes due 2013 | New York Stock Exchange                                  |
| 6.500% Notes due 2018         | New York Stock Exchange                                  | 6.500% Notes due 2018 | New York Stock Exchange                                  |
| 7.125% Notes due 2028         | New York Stock Exchange                                  | 7.125% Notes due 2028 | New York Stock Exchange                                  |
| 1.875% Notes due 2015         | New York Stock Exchange                                  | 1.875% Notes due 2015 | New York Stock Exchange                                  |
| 3.500% Notes due 2020         | New York Stock Exchange                                  | 3.500% Notes due 2020 | New York Stock Exchange                                  |
| 5.200% Notes due 2040         | New York Stock Exchange                                  | 5.200% Notes due 2040 | New York Stock Exchange                                  |
| 8.950% Notes due 2014         | New York Stock Exchange                                  | 8.950% Notes due 2014 | New York Stock Exchange                                  |
| 9.000% Notes due 2019         | New York Stock Exchange New York Stock Exchange New York | 9.000% Notes due 2019 | New York Stock Exchange New York Stock Exchange New York |
| 2.500% Notes due 2016         | Stock Exchange   | 2.500% Notes due 2016 | Stock Exchange   |
| 4.125% Notes due 2021         |  | 4.125% Notes due 2021 |  |
| 2.250% Notes due 2016         | New York Stock Exchange                                  | 2.250% Notes due 2016 | New York Stock Exchange                                  |
| 3.750% Notes due 2021         | New York Stock Exchange                                  | 3.750% Notes due 2021 | New York Stock Exchange                                  |

\* Evidenced by American Depositary Receipts. Each American Depositary Share Represents one 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 Class | Title of Class Shares |
| None           |                       |

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:

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| Title of each class         | Number        | Number      | Title of each class  |
|-----------------------------|---------------|-------------|----------------------|
| Ordinary Shares of 10p each | 1,453,399,376 | 435,758,720 | 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-known 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. 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 registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).\* Yes  No

\* This requirement does not apply to the registrant until its fiscal year ending December 31, 2011.

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 basis of accounting the registrants have used to prepare the financial statements included in this filing:

US GAAP       International Financial Reporting Standards as issued       Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrants have elected to follow: Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

This document comprises the annual report on Form 20-F and the annual report to shareholders for the year ended December 31, 2011 of Rio Tinto plc and Rio Tinto Limited (the 2011 Form 20-F). Reference is made to the cross reference to Form 20-F table on pages i to iii hereof (the Form 20-F Cross reference table). Only (i) the information in this document that is referenced in the Form 20-F Cross reference table, (ii) the cautionary statement concerning forward-looking statements on page v and (iii) the Exhibits, shall be deemed to be filed with the Securities and Exchange Commission for any purpose, including incorporation by reference into the Registration Statement on Form F-3 File No. 333-175037, and Registration Statements on Form S-8 File Nos. 33-46865, 333-8270, 33-64380, 333-7328, 333-10156, 333-13988, 333-147914 and 333-156093 and any other documents, including documents filed by Rio Tinto plc and Rio Tinto Limited pursuant to the Securities Act of 1933, as amended, which purport to incorporate by reference the 2011 Form 20-F. Any information herein which is not referenced in the Form 20-F Cross reference table, or the Exhibits themselves, shall not be deemed to be so incorporated by reference.

**Table of Contents****Form 20-F Cross Reference Table**

| <b>Item Number</b> | <b>Number Description</b>                                    | <b>Report section reference</b>       |         |
|--------------------|--|---------------------------------------|---------|
| <b>1.</b>          | <b>Identity of directors, senior management and advisors</b> | Not applicable                        |         |
| <b>2.</b>          | <b>Offer statistics and expected timetable</b>               | Not applicable                        |         |
| <b>3.</b>          | <b>Key Information</b>                                       |                                       |         |
| A                  | Selected financial information                               | Performance highlights                | v       |
|                    |  | Five Year review                      | 39      |
|                    |  | Dual listed companies structure       | 119     |
|                    |  | Dividend rights                       | 119     |
|                    |  | Exchange rates                        | 124     |
| B                  | Capitalisation and indebtedness                              | Not applicable                        |         |
| C                  | Reasons for the offer and use of proceeds                    | Not applicable                        |         |
| D                  | Risk factors   | Risk factors                          | 10-12   |
| <b>4.</b>          | <b>Information on the company</b>                            |                                       |         |
| A                  | History and development of the company                       | Shareholder information               |         |
|                    |  | Organisational structure              | 119     |
|                    |  | Nomenclature and financial data       | 119     |
|                    |  | History                               | 119     |
|                    |  | Registered offices                    | 222     |
|                    |  | Acquisition and divestments           | 40      |
|                    |  | Capital projects                      | 41      |
| B                  | Business overview  | Strategic context                     | 5       |
|                    |  | Group strategy                        | 6       |
|                    |  | Group overview                        | 3-4     |
|                    |  | Key performance indicators            | 8-9     |
|                    |  | Financial review                      |         |
|                    |  | Iron Ore                              | 35      |
|                    |  | Aluminium                             | 35      |
|                    |  | Copper                                | 35      |
|                    |  | Energy                                | 35      |
|                    |  | Diamonds & Minerals                   | 35      |
|                    |  | Corporate governance                  |         |
|                    |  | Governmental regulations              | 83      |
| C                  | Organisational structure                                     | Financial statements                  |         |
|                    |  | Notes 35-38                           | 186-189 |
| D                  | Property, plant and equipment                                | Metals and minerals production        | 44-47   |
|                    |  | Ore reserves                          | 48-57   |
|                    |  | Mines and production facilities       | 58-66   |
|                    |  | Financial statements                  |         |
|                    |  | Note 14-property, plant and equipment | 164     |
| <b>4A.</b>         | <b>Unresolved staff comments</b>                             | None                                  |         |
| <b>5.</b>          | <b>Operating and financial review and prospects</b>          |                                       |         |
| A                  | Operating results  | Aluminium                             | 20-21   |
|                    |  | Copper                                | 22-23   |
|                    |  | Diamond & Minerals                    | 24-25   |
|                    |  | Energy                                | 26-27   |
|                    |  | Iron Ore                              | 28-29   |
|                    |  | Sustainable development               | 14      |
| B                  | Liquidity and capital resources                              | Financial review                      |         |
|                    |  | Cash Flow                             | 36      |
|                    |  | Statement of financial position       | 36      |
|                    |  | Financial risk management             | 36-37   |
|                    |  | Capital risk management and dividend  | 37      |
|                    |  | Liquidity and capital resources       | 37      |
|                    |  | Financial statements                  |         |
|                    |  | Note 31-financial risk management     | 174-179 |
| C                  | Research and development, patents and licenses               | Business support & operations         |         |
|                    |  | Exploration                           | 30      |

**Table of Contents**

| <b>Item Number</b> | <b>Number Description</b>                                  | <b>Report section reference</b>                               |        |
|--------------------|--|---|--------|
|                    |  | Technology & Innovation                                       | 31     |
| D                  | Trend information  | Group overview  | 3-4    |
|                    |  | Chairman's letter   | 1      |
|                    |  | Chief executive's statement                                   | 2      |
| E                  | Off-balance sheet arrangements                             | See item 5.A  |        |
|                    |  | Financial review  |        |
|                    |  | Off balance sheet arrangements and contractual commitments    | 38     |
|                    |  | Financial statements  |        |
|                    |  | Note 33-contingent liabilities and commitments                | 184    |
| F                  | Tabular disclosure of contractual obligations              | Financial review  |        |
|                    |  | Off balance sheet arrangements and contractual commitments    | 38     |
| <b>6.</b>          | <b>Directors, senior management and employees</b>          |   |        |
| A                  | Directors and senior management                            | Board of directors  | 77-79  |
|                    |  | Executive committee   | 80     |
| B                  | Compensation   | Remuneration report   | 86-117 |
| C                  | Board practices  | Board of directors  | 77-79  |
|                    |  | Executive committee   | 80     |
|                    |  | Corporate governance  | 67-76  |
| D                  | Employees  | Financial statements  |        |
|                    |  | Note 5-employment costs                                       | 157    |
|                    |  | Note 34-average number of employees                           | 185    |
| E                  | Share ownership  | Remuneration report tables                                    |        |
|                    |  | Table 3   | 110    |
| <b>7.</b>          | <b>Major shareholders and related party transactions</b>   |   |        |
| A                  | Major shareholders   | Shareholder information                                       |        |
|                    |  | Substantial shareholders                                      | 122    |
|                    |  | Analysis of ordinary shareholders                             | 122    |
|                    |  | Twenty largest registered shareholders                        | 123    |
| B                  | Related party transactions                                 | Financial statements  |        |
|                    |  | Note 42- related party transactions                           | 197    |
| C                  | Interests of experts and counsel                           | Not applicable  |        |
| <b>8.</b>          | <b>Financial Information</b>                               |   |        |
| A                  | Consolidated statements and other<br>Financial information | See Item 18 below   |        |
|                    |  | Financial statements  |        |
|                    |  | Note 33-contingent liabilities and commitments                | 184    |
|                    |  | Shareholder information                                       |        |
|                    |  | Dividends   | 123    |
|                    | Significant changes  | Financial statements  |        |
| B                  |  | Note 45-events after the statement of financial position date | 198    |
| <b>9.</b>          | <b>The offer and listing</b>                               |   |        |
| A                  | <b>Offer and listing details</b>                           | Shareholder information                                       |        |
|                    |  | Markets   | 121    |
|                    |  | Share price information                                       | 124    |
| B                  | Plan of distribution                                       | Not applicable  |        |
| C                  | Markets  | Shareholder information                                       |        |
|                    |  | Markets   | 121    |
| D                  | Selling shareholders                                       | Not applicable  |        |
| E                  | Dilution   | Not applicable  |        |
| F                  | Expenses of the issue                                      | Not applicable  |        |
| <b>10.</b>         | <b>Additional Information</b>                              |   |        |
| A                  | Share capital  | Not applicable  |        |
| B                  | Memorandum and articles of association                     | Shareholder information                                       |        |

**Table of Contents**

| <b>Item Number</b> | <b>Number Description</b>   | <b>Report section reference</b>                                     |         |
|--------------------|---|---|---------|
|                    |   | Material contracts  | 125-126 |
|                    |   | Dual listed companies structure                                     | 119-121 |
| C                  | Material contracts  | Shareholder information   |         |
|                    |   | Material contracts  | 125-126 |
| D                  | Exchange controls   | Shareholder information   |         |
|                    |   | Exchange controls and foreign investment                            | 126     |
| E                  | Taxation  | Shareholder information   |         |
|                    |   | Taxation  | 126-129 |
| F                  | Dividends and paying agents   | Not applicable  |         |
| G                  | Statement by experts  | Not applicable  |         |
| H                  | Documents on display  | Shareholder information   |         |
|                    |   | Document on display   | 129     |
| I                  | Subsidiary information  | Not applicable  |         |
| <b>11.</b>         | <b>Quantitative and qualitative disclosures about market risk</b>                   | Financial review  | 32-38   |
|                    |   | Cautionary statement about forward looking statements               | v       |
| <b>12.</b>         | <b>Description of securities other than equity securities</b>                       | Shareholder information   |         |
|                    |   | Markets   | 121-122 |
| <b>13.</b>         | <b>Defaults, dividend arrearages and delinquencies</b>                              | Not applicable  |         |
| <b>14.</b>         | <b>Material modifications to the rights of security holders and use of proceeds</b> | Not applicable  |         |
| <b>15.</b>         | <b>Controls and procedures</b>  | Corporate governance  |         |
|                    |   | Financial reporting   | 76      |
| <b>16.</b>         |   |   |         |
| A                  | Audit committee financial expert  | Corporate governance  |         |
|                    |   | Audit committee report  | 71      |
| B                  | Code of ethics  | Corporate governance  |         |
|                    |   | Global code of conduct  | 74      |
| C                  | Principal Accountant fees and services  | Director s report   |         |
|                    |   | Fees for audit and non-audit services                               | 84      |
|                    |   | Corporate governance  |         |
|                    |   | Governance processes  | 71      |
|                    |   | Auditors and internal assurance                                     | 75      |
|                    |   | Financial statements  |         |
|                    |   | Note 41-Auditors remuneration                                       | 196     |
| D                  | Exemptions from the listing standards for audit committees                          | Not applicable  |         |
| E                  | Purchases of equity securities by the issuer and affiliated purchasers              | Directors report  |         |
|                    |   | Share capital   | 82      |
|                    |   | Purchase  | 82      |
| F                  | Change in Registrant s Certifying Accountant  | Not applicable  |         |
| G                  | Corporate Governance  | Corporate governance  |         |
|                    |   | Statement of compliance with governance codes and standards in 2011 | 68      |
| H                  | Mine safety disclosure  |   | 14      |
| <b>17.</b>         | <b>Financial statements</b>   | Not applicable  |         |
| <b>18.</b>         | <b>Financial statements</b>   | Report of the independent auditors                                  | 216     |
|                    |   | Consolidated financial statements                                   | 130-213 |
| <b>19.</b>         | <b>Exhibits</b>   |   |         |

**Table of Contents**

## 2011 Annual report

**Overview**

|   |     |
|---|-----|
| <u>Performance highlights</u>   | v   |
| <u>Chairman's letter</u>  | 1   |
| <u>Chief executive's statement</u>  | 2   |
| <u>Group overview</u>   | 3   |
| <u>Strategic context</u>  | 5   |
| <u>Group strategy</u>   | 6   |
| <u>Business model</u>   | 7   |
| <u>Key performance indicators</u>   | 8   |
| <u>Risk factors</u>   | 10  |
| <br>  |     |
| <b>Performance</b>  |     |
| <u>Sustainable development</u>  | 14  |
| <u>Aluminium</u>  | 20  |
| <u>Copper</u>   | 22  |
| <u>Diamonds &amp; Minerals</u>  | 24  |
| <u>Energy</u>   | 26  |
| <u>Iron Ore</u>   | 28  |
| <u>Business Support &amp; Operations</u>  | 30  |
| <u>Exploration</u>  | 30  |
| <u>Other Business Support &amp; Operations</u>                                      | 30  |
| <u>Technology &amp; Innovation</u>  | 31  |
| <u>Financial review</u>   | 32  |
| <u>Five year review</u>   | 39  |
| <u>Acquisitions and divestments</u>   | 40  |
| <u>Capital projects</u>   | 41  |
| <br>  |     |
| <b>Production, reserves and operations</b>  |     |
| <u>Metals and minerals production</u>   | 44  |
| <u>Ore reserves</u>   | 48  |
| <u>Mines and production facilities</u>  | 58  |
| <br>  |     |
| <b>Governance</b>   |     |
| <u>Chairman's introduction</u>  | 67  |
| <u>Corporate governance</u>   | 67  |
| <u>Board of directors</u>   | 77  |
| <u>Executive committee</u>  | 80  |
| <u>Directors' report</u>  | 81  |
| <u>Remuneration report</u>  | 86  |
| <u>Remuneration report tables</u>   | 106 |
| <u>Shareholder information</u>  | 119 |
| <br>  |     |
| <b>Financial statements</b>   |     |
| <u>Detailed contents</u>  | 130 |
| <u>Group income statement</u>   | 131 |
| <u>Group statement of comprehensive income</u>                                      | 132 |
| <u>Group cash flow statement</u>  | 133 |
| <u>Group statement of financial position</u>  | 134 |
| <u>Group statement of changes in equity</u>   | 135 |
| <u>Reconciliation with AAS</u>  | 136 |
| <u>Outline of dual listed companies structure and basis of financial statements</u> | 136 |
| <u>Notes to the 2011 financial statements</u>                                       | 137 |
| <u>Financial information by business unit</u>                                       | 209 |
| <u>Summary of ASIC relief</u>   | 213 |
| <u>Report of independent registered public accounting firms</u>                     | 216 |

Additional information

Financial calendar

Useful information

221  
222

**Table of Contents**

**Performance highlights**

Record underlying earnings<sup>(a)</sup> of US\$15.5 billion, 11 per cent above 2010.

Net earnings<sup>(a)</sup> of US\$5.8 billion, 59 per cent below 2010, primarily as a result of an impairment charge of US\$8.9 billion related to the Group's aluminium businesses.

Record underlying EBITDA<sup>(a)</sup> of US\$28.5 billion, ten per cent above 2010.

Record cash flows from operations up 16 per cent to US\$27.4 billion.

Capital expenditure of US\$12.3 billion in 2011, compared with US\$4.6 billion in 2010. Total capital expenditure for 2012 projects approved at date of this report and sustaining capital is expected to be US\$16 billion. Further project approvals, mainly in the Pilbara, are likely to increase this level of investment as the growth programme continues.

Pilbara iron ore expansion to 283 million tonnes per annum (mtpa) now fully approved and on track to be in operation by end of 2013: second planned phase expansion of Pilbara capacity enhanced to 353 mtpa and completion brought forward by six months to first half of 2015.

Growth options enhanced in Mongolia, Mozambique and South Africa: Rio Tinto moves to majority stake in Ivanhoe, completes Riversdale acquisition providing entry to an emerging major coking coal resource and announces doubling of stake in Richards Bay Minerals.

34 per cent increase to full year dividend to 145 US cents per share, reflecting confidence in long-term outlook.

US\$7 billion share buy-back programme on track for completion by end of the first quarter 2012.

Twelve months to 31 December

(All amounts are US\$ millions unless otherwise stated)

|  | 2011   | 2010   | Change |
|--|--------|--------|--------|
| Underlying EBITDA <sup>(a)</sup>                             | 28,521 | 25,978 | 10%    |
| Underlying earnings <sup>(a)</sup>                           | 15,549 | 13,987 | 11%    |
| Net earnings <sup>(a)</sup>                                  | 5,826  | 14,238 | (59%)  |
| Cash flows from operations                                   | 27,388 | 23,530 | 16%    |
| Underlying earnings per share US cents                       | 808.5  | 713.3  | 13%    |
| Basic earnings per share from continuing operations US cents | 303.5  | 731.0  | (58%)  |
| Ordinary dividends per share US cents                        | 145.0  | 108.0  | 34%    |

The financial results are prepared in accordance with IFRS and EU IFRS.

(a)

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Underlying earnings is the key financial performance indicator which management uses internally to assess performance. It is presented here to provide greater understanding of the underlying business performance of the Group's operations attributable to the owners of Rio Tinto. Net earnings and underlying earnings relate to profit attributable to owners of Rio Tinto. Underlying earnings is defined and reconciled to net earnings in note 2 to the 2011 financial statements. EBITDA is defined on page 212. Underlying EBITDA excludes the same items that are excluded from underlying earnings and is reconciled to the Income Statement in note 2 on page 154.

This *Annual report* and *Auditors' report* comply with Australian and UK reporting requirements.

Copies of Rio Tinto's shareholder documents are available on the website at [www.riotinto.com](http://www.riotinto.com). They can also be obtained free of charge from the Company. Some shareholders may prefer to receive the *Annual review* which contains the summary financial statements although shareholders should note that it does not allow as full an understanding of the Group.

### 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. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words *intend*, *aim*, *project*, *anticipate*, *estimate*, *plan*, *believes*, *expects*, *may*, *should*, *will*, or similar expressions, commonly identify forward-looking statements.

Examples of forward-looking statements in this *Annual report* include 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 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 projected future results expressed or implied by these forward looking statements which speak only as to 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.

v

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## **Table of Contents**

### **Chairman's letter**

Despite continuing global economic uncertainty and volatility, Rio Tinto has had a record year. We have also strengthened the Group to meet anticipated challenges – including those of growth and expansion.

Our overall safety performance indicators improved in 2011, although I was deeply saddened by the six fatalities at our managed operations and operations held for divestment.

Our underlying EBITDA rose ten per cent on 2010 to US\$28.5 billion reflecting, in particular, higher prices and strong iron ore sales despite production being adversely affected by the weather in the early part of the year. We also achieved record underlying earnings of US\$15.5 billion, up 11 per cent on 2010. However, our net earnings were US\$5.8 billion, a fall of 59 per cent reflecting a US\$8.9 billion impairment of some of our aluminium businesses.

### **Efficient capital management**

Your board believes that the creation of long-term, sustainable shareholder value requires a prudent approach to investing in growth and returning excess capital to shareholders. We aim to do this by maintaining a strong balance sheet.

The board continues to see attractive and significant growth opportunities around the world, against a backdrop of short-term uncertainty in the financial markets, particularly in the eurozone. The anticipated doubling of demand over the next two decades will require unprecedented levels of investment across the mining and metals industry. With these prospects will come choices. Your board will dedicate a great deal of effort to screening opportunities. This will ensure we identify and progress the growth projects with the greatest potential to create value for shareholders over the longer term. However, the increasing capital intensity of growth projects is affecting the way we look at future projects and expansion.

We continue to balance the strategic driver of growth, wherever those opportunities may arise, with the equally important driver of financial and operational excellence – investing in the business and returning excess capital to shareholders. Therefore, whilst we are committed to a capital expenditure programme in 2012 of US\$16 billion, during 2011 we returned a total of US\$7.7 billion to shareholders through the progressive dividend and share buy-back programme. Our confidence in our long-term prospects is reflected in the 34 per cent dividend increase to 145 cents a share.

### **Global economic uncertainty**

The world continues to face uncertainty and we believe this will contribute to ongoing volatility. The unresolved sovereign debt crisis in Europe has not only weakened demand there, it has the potential for contagion in other markets. The pace of recovery in the US is slow but there have been some signs that the situation is improving.

Growth in China is not accelerating at the same pace as we have seen in recent years, but the rate is still favourable in comparison to the growth in global gross domestic product of around 3.3 per cent.

In recent years we have strengthened our balance sheet. This will serve as a buttress for us in more volatile times ahead.

### **Focus for the board in 2011**

Managing the risks in our markets was a priority for the board last year. In addition to experiencing high degrees of global volatility, we have been assessing our increased exposure to non-OECD countries and the challenges presented by escalating resource nationalism and sovereign risk in the sector.

We have today published a comprehensive analysis of the US\$10 billion in taxes we have paid worldwide during 2011. In recognition of our tax transparency initiative which we started in 2010, Rio Tinto was awarded the 2011 *PwC Building Public Trust* award for Tax Reporting in the FTSE100.

We have also retained our strong commitment to sustainable development which we believe gives us a competitive advantage. Not only does it reduce our environmental and community impact, but it helps us to attract high calibre individuals and ultimately deliver a better return to our shareholders.

As chairman of the board I have consistently felt it important to provide continuity through succession planning by ensuring the board is refreshed with new skills and greater diversity.

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During the year, John Varley and Chris Lynch joined the board. We welcome the extensive experience they bring to board proceedings. John will succeed Andrew Gould as the senior independent non-executive director upon Andrew's retirement from the board at the conclusion of the Rio Tinto Limited annual general meeting in May. John has become chairman of the Remuneration committee, which I have also recently joined as a member. I would also like to take this opportunity to thank Andrew for his invaluable support provided to Rio Tinto since 2002.

### Outlook

We believe the long-term outlook is strong. We have invested heavily, and continue to invest to meet the needs of emerging economies.

Despite the current volatility we are preserving our investment trajectory to meet the growing global demand for our metals and minerals. Our organic growth continues and we will make value-enhancing acquisitions as the opportunities arise. Where necessary we will refocus our activities to fit our strategic objectives of running large, low-cost operations.

During 2011, our people have again excelled. Their contribution to improvements in our operational and financial efficiency has made our record results possible and, on behalf of the board, I would like to thank them.

I would also like to thank our shareholders for their continued support. I extend my gratitude to the countries and communities that host our operations and for the opportunities they create for us to demonstrate our commitment to growing prosperity and operating sustainably.

Jan du Plessis

Chairman

5 March 2012

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## **Table of Contents**

### **Chief executive's statement**

We have achieved record results in challenging markets during 2011. We made good progress during market volatility despite our Australian operations being disrupted by severe flooding. It is to the credit of our people that, as well as helping their communities in the crisis, they brought production back on line safely and met or exceeded output targets.

Our record underlying earnings, mainly driven by an outstanding year for our Iron Ore business, have put us in a strong position to navigate the uncertain environment we face. As Jan has said in his letter, this focus has demonstrated our commitment to financial and operational excellence whilst pursuing growth opportunities consistent with our strategy to create long-term, sustainable returns for shareholders.

During 2011, we approved a number of major growth projects. These include a substantial expansion of our Pilbara operations, investment in some of the most exciting mining projects in the world, and a commitment to transform some of our existing assets.

Although our all injury frequency rate continued to improve with a two per cent reduction in 2011, the achievement is significantly overshadowed by the six fatalities at our managed sites (and operations held for divestment) during the year. In a period of prolonged growth within the sector, these tragedies remind us of the importance of maintaining safety as a primary focus at all times, particularly during expansion.

We will be placing even greater emphasis in 2012 on simplifying systems, identifying and managing critical safety risks and engaging frontline leaders more in communicating safety messages to their teams.

### **Strategy**

We remain committed to our vision to be the leading global mining and metals company through a strategy of developing long-life, cost-competitive, expandable assets. To achieve this we focus on a portfolio of Tier 1 assets diversified by commodity, market and geography. Please see page 6 for more information on our strategy and business model.

We are a long-term business and our strategy has consistently served us well over the years and will continue to do so in the challenging times ahead. In 2011, to support our strategy, we concentrated on five strategic drivers: financial and operational excellence, globalising the business, technology and innovation, licence to operate, and growth. We made significant progress in all of these areas.

### **Globalising and growing the business**

Through a combination of growing the business and expanding our current operations, we will soon start to harvest the fruits of our long-term growth trajectory: the first copper from the Oyu Tolgoi mine in Mongolia is part of our contribution to the 2012 London Olympic and Paralympic Games where we take great pride in supplying the metals for the winners' medals. We have increased our holding in Oyu Tolgoi by raising our stake in Ivanhoe, its major shareholder, to 51 per cent in January 2012: first commercial production is due in 2013.

The first coal from our Mozambican coalfields, acquired in 2011, will also be exported this year and our Simandou iron ore project is laying a path for sustainable, long-term growth. In buying the uranium exploration company Hathor and the proposal announced in February 2012 to double our stake in Richards Bay Minerals we have focused on acquisitions that add value and enhance our growth pipeline.

Our organic growth is also progressing: our iron ore capacity in the Pilbara, in Western Australia will increase to 230 million tonnes a year in the first quarter of 2012. Expansion plans to raise that to 283 mtpa have been approved and we have accelerated the target of 353 mtpa by six months to the first half of 2015, subject to board approval.

### **Licence to operate**

While rising resource nationalism is creating investment uncertainty, we continue to believe that our strategy of improving our stakeholder engagement, transparency in tax payments and a focus on sustainable

development can assist us in gaining and maintaining our access to resources. Our aim is to be the developer of choice in an increasingly competitive environment.

When I meet with leaders around the world to discuss the challenges of resource nationalism and the opportunity presented by responsible mining, I convey to them how we earn our licence to operate through Rio Tinto's knowledge; the skills we can offer and our experience in both mining and marketing all of which can help bring prosperity to their regions. I also highlight the considerable contribution that we make to build the social and economic fabric in the communities where we operate and how we engage in environmental protection throughout our activities and regeneration when our mining is done.

## Innovation and technology

Innovative technologies are making a substantial contribution to safety, operational and environmental efficiency and financial performance. For example, our Mine of the Future has brought us the Operations Centre in Perth controlling train, truck and shipping movements in the Pilbara, our autonomous truck programme and our recently announced AutoHaul™ automated train programme. Although innovation is not confined to technology: there are many parts of our business where innovative management plans, processes and work practices are also improving safety and efficiency.

## Costs

As an industry, we are facing a period of historic cost inflation. Higher input costs and the strength of the Canadian and Australian dollars – currencies in which we incur many of our costs – are putting pressure on our margins.

Rising costs of exploration, development and extraction are, in part, a consequence of the lower ore grades that our industry faces. They also stem from the increasing remoteness of resources, difficult geographies, and increased social and economic commitments such as the Australian Minerals Resource Rent Tax and Australian carbon taxes.

## The year ahead

During 2012 we have a clear objective to focus on controlling costs and improving productivity. We will achieve this whilst continuing to work on the transformation of the aluminium business through the disposal of assets that do not fit with our core strategy and continuing our efficiency measures. We will adapt our portfolio to concentrate on delivering our projects. We will also develop our marketing capability, improving our ability to react quickly and flexibly to our customers' requirements.

## Our people

As a global company we have the opportunity to develop and rely on the skills and cultures of our international workforce. We are committed to engaging with our people to foster diversity and leadership; providing them with the best opportunities to learn and develop with an industry leader.

I express my appreciation to our employees for the contributions they have made during the course of 2011, to our shareholders for their ongoing support and to the communities and countries who host our operations.

I believe that with Rio Tinto's financial strength, its committed workforce and our long-term projects and operations, we have set the scene for exciting achievements in 2012 and beyond.

Tom Albanese

Chief executive

5 March 2012

## **Table of Contents**

### **Group overview**

#### **Aluminium product group**

We are a global leader in the aluminium industry. Our fully-integrated facilities include high-quality bauxite mines, large-scale alumina refineries, and some of the world's lowest-cost, most technologically-advanced primary aluminium smelters.

#### **Products**

##### **Bauxite**

Bauxite is the natural ore used to make aluminium. It is refined into alumina which is smelted into aluminium metal.

##### **Alumina**

Alumina (aluminium oxide) is extracted from bauxite via a refining process known as the Bayer process. Approximately four tonnes of bauxite are required to produce two tonnes of alumina, which in turn makes one tonne of aluminium metal.

##### **Aluminium**

Aluminium is light, strong, flexible, non-corrosive and infinitely recyclable. Aluminium is one of the most widely used metals and its largest markets are transportation, building and construction.

#### **Key strengths**

Largest bauxite producer in the industry.

Tier 1 operations across the value chain, from bauxite to alumina to aluminium.

The vast majority of Rio Tinto Alcan's operations draw on clean, renewable hydroelectric power.

Industry leading technologies including our proprietary AP Technology .  
Full operating review on page 20.

#### **Copper product group**

With diverse assets and leading technology, our Copper group is uniquely positioned to supply growing global demand. In 2011, we produced 520 thousand tonnes of mined copper (Rio Tinto share), making us the world's seventh largest supplier. We also produced 669 thousand ounces of gold, 4,924 thousand ounces of silver and 14 thousand tonnes of molybdenum as by-products of our copper operations.

#### **Products**

##### **Copper**

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The world uses more than 20 million tonnes of copper every year. Copper is found in nearly every home and vehicle, and in parts and appliances used in numerous aspects of infrastructure and technology. Copper's malleability, strength and resistance to corrosion make it useful in a broad range of building, construction and electrical applications.

### Gold

Gold's conductivity and non-corrosive properties make it a vital fabrication material in technology, electronics, jewellery, space exploration and dentistry. Rio Tinto is currently one of the top 15 gold producers in the world, and the largest among the diversified miners. We have interests in two of the largest gold resources at Oyu Tolgoi and Grasberg; the latter contains the largest gold reserves in the world. Rio Tinto produces gold as a by-product of its copper production.

### Silver

Silver is a good conductor of electricity and has non-corrosive properties. It is used in many electrical and electronic applications, such as photovoltaic cells, and is the principal ingredient of x-ray film. Silver is also a metal of beauty, used to make lasting products for the home and person. Rio Tinto produces silver as a by-product of its copper production.

### Molybdenum

Molybdenum is a metallic element frequently used to produce stainless steel and other metal alloys. It enhances the metal's toughness, high temperature strength and corrosion resistance. We produce molybdenum as a by-product of our copper operations.

### Key strengths

Participation in and ownership of several world-class operating assets. Management of the Oyu Tolgoi project, scheduled to be a top ten copper producer and a significant gold producer.

Investment in substantial growth projects.

Industry leading technology and innovation.  
Full operating review on page 22.

### Diamonds & Minerals product group

The Diamonds & Minerals group comprises mining, refining and marketing operations across three sectors. Rio Tinto Diamonds is one of the world's leading diamond producers, active in mining, sales and marketing. Rio Tinto Minerals is a world leader in borates, with mines, processing plants, commercial and research facilities. Rio Tinto Iron & Titanium is an industry leader in high grade titanium dioxide.

### Products

#### Diamonds

Diamonds share a role with gold as an important component in jewellery that ranges from top end jewellery through to more affordable diamond jewellery accessories. Rio Tinto is able to service both established and emerging markets as it produces the full range of gem diamonds in terms of size, quality and colour distribution.

#### Borates

Refined borates are used in hundreds of products and processes. They are a vital ingredient of many home and automotive applications, and are essential nutrients for crops. They are commonly used in glass and ceramic applications including fibreglass, television screens, floor and wall tiles, and heat-resistant glass.

#### Titanium dioxide

The minerals ilmenite and rutile, together with titanium dioxide slag, can be transformed into a white titanium dioxide pigment or titanium metal. The white pigment is a key component in paints, plastics, paper, inks, textiles, food, sunscreen and cosmetics. Titanium metal's key properties of light weight, chemical

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inertness and high strength make it ideal for use in medical applications and in the aerospace industry.

Other products include high purity iron, metal powders, zircon and rutile.

### Key strengths

Poised to benefit from late-cycle demand growth.

Substantial brownfield and greenfield development pipeline.  
Full operating review on page 24.

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## **Table of Contents**

### **Group overview continued**

#### **Energy product group**

We are a leading supplier of thermal and coking coal to the Asian seaborne market and are one of the world's largest uranium producers, serving electric power utilities worldwide. The Rio Tinto Energy product group has operations, exploration and development projects in Australia, Africa and Canada.

#### **Products**

##### **Coal**

Coal is abundant, relatively inexpensive, and safe and easy to transport. We are a large producer in the export thermal coal market. Thermal coal is used for electricity generation in power stations. We also produce higher-value coking, or metallurgical, coal which, when treated into coke, is used in furnaces with iron ore to produce steel.

##### **Uranium**

Uranium is one of the most powerful natural energy sources known, used in the production of clean, stable, base load electricity. After uranium ore is mined, it is milled into uranium oxide – the mine product that is sent away for further processing into fuel rods for nuclear power stations.

#### **Key strengths**

Strong customer relationships and high-quality assets located in close proximity to growing Asian markets.

Success in operating long-life, cost-competitive mines and businesses.

World class growth opportunities including brownfield expansion opportunities at our existing coal operations in Australia and recent acquisitions like Hathor Exploration in Canada.

Strong product stewardship strategy to ensure we contribute to the global solutions for the challenges our products raise.  
Full operating review on page 26.

#### **Iron Ore product group**

We are the second-largest producer supplying the global seaborne iron ore trade. After a decade of dramatic expansion in Australia, and more recent growth in both Australia and Canada, we are well positioned to benefit from the continuing demand surge in China and other Asian markets. We are driving performance through effective project management and enhanced operational efficiency.

#### **Products**

##### **Iron ore**

Iron is the key ingredient in the production of steel, one of the most fundamental and durable products for modern-day living, with uses from railways to paperclips. Our mines are located in Australia and Canada with a major project under way in Guinea in West Africa.

##### **Salt**

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Salt is one of the basic raw materials for the chemicals industry and is indispensable to a wide array of automotive, construction and electronic products, as well as for water treatment, food and healthcare.

### Key strengths

Proximity of the expanded Pilbara operations in Australia to the world's largest and fastest-growing markets.

Success in increasing operational efficiency and controlling costs.

Vast potential of brownfield developments near existing infrastructure.  
Full operating review on page 28.

4 [Rio Tinto 2011 Annual report](#)

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## **Table of Contents**

### **Strategic context**

#### **Global economy**

During the past year we have witnessed significant change and volatility in the global economy as economic and political events increased the risk of a derailment by crisis for short periods of time; a pattern we continue to call the 'saw-tooth economy'. At any other time, the Japanese tsunami, the Arab Spring, and the US fiscal crisis and credit rating downgrade would have been major events, but when combined with the eurozone debt crisis, they provided a challenging environment for commodity markets. Despite these setbacks, during 2011 commodity prices generally averaged higher than in 2010. This was due to a combination of factors including: ongoing strong demand from China; commodity supply constraints coupled with weather and environmental disruption; and low interest rates facilitating direct investment in commodities.

Demand for commodities in 2012 will be supported by an improvement in global growth, although we cannot rule out periods of volatility similar to those in 2011. Consensus forecasts of economic growth around the world have moderated in recent months although global GDP is still forecast to grow at a rate of around 3.3 per cent in 2012. We expect Chinese economic growth to remain above eight per cent for 2012, while growth in other emerging markets is expected to remain relatively robust, albeit with weaker rates of growth than seen in recent years. It will be important to watch developments in the US where improvements in the labour market, manufacturing activity and equity markets are indicative of a strengthening recovery. The key concern for the global outlook continues to stem from the European sovereign debt crisis and the ability of the rest of the world to minimise contagion threats. However, central banks are vigilant to these risks and we believe they will continue to provide substantial liquidity to support the global financial system.

Over the longer term, global growth is expected to remain elevated as fast-growing emerging markets take up larger shares of the world economy. Our belief is that increasing prosperity in these countries, including China and India, with associated industrialisation and urbanisation, will continue to drive underlying growth in demand for commodities.

#### **Commodity markets**

Commodity prices generally averaged higher in 2011 than in 2010 although most prices peaked in the first quarter and troughed in the fourth, with prices finishing the year lower than they started. Commodity price movements can be broadly attributed to a slowing in demand, particularly in China, ongoing supply constraints and rising costs, expansionary monetary policy facilitating indirect investment demand for commodities, and finally, the sovereign debt crisis in Europe and a concern about global financial sector stability. Against this background of falling prices, operating margins have tightened due to rising costs of key raw materials and equipment and adverse exchange rate movements. Operating costs are on the rise partly due to a scarcity of key inputs such as labour and capital equipment and a noticeable deterioration in productivity. Moreover, the availability of capital is imposing constraints across some sectors of the industry.

A key feature of commodity markets in 2011 was the continued tightness in supply. Across many commodities, a range of factors have limited the growth in mine production. In general, the industry continued to face the challenges of declining grades, a lack of infrastructure in new jurisdictions, delays to expansion programmes and temporary disruptions from strikes, adverse weather conditions and environmental concerns.

Global copper mine production struggled to grow in 2011 despite several years of elevated prices. Secondary supply was also weak, particularly towards the end of the year, as Western world economic activity slowed. With a further market deficit recorded in 2011 end-users continue to investigate the potential substitution of copper for other materials such as aluminium. However, in the absence of new end-use technologies, significant replacements appear limited in the short-term.

In iron ore, supply disruptions in Australia, Brazil and India in the first half of the year proved to be temporary. Production increased in the second half of the year with a strong rise in Brazilian supply and record output from Australia. Despite this new supply, high iron ore prices were required to support increased levels of high-cost Chinese domestic production in 2011. A similar picture emerged in the thermal coal market, with production increasing by varying degrees, in Australia, Indonesia, Colombia and South Africa and new supply from the Illinois Basin supporting US East Coast exports. In the metallurgical coal market, supply was severely disrupted following flooding in Queensland. The resulting higher prices encouraged US suppliers to enter the seaborne market. 2011 also marked the significant entry of Mongolia to the market.

Apart from commodity specific constraints, our industry is facing increased demands from governments which will increase the cost, timing and uncertainty surrounding the operation of current projects and development of new capacity. By impacting investment, it will also affect supply which will lead to fewer projects coming on-stream and in an environment of high demand, will therefore result in higher prices. While recognising the right of governments to raise revenues from taxes and royalties, the growing trend of increased fiscal imposts on existing projects, mandated government shares, often as 'free carried' options, on new projects and a raft of regulatory and infrastructure requirements is impacting on the ability of the industry to increase supply through new investment. Such measures have the potential to delay economic and social development in those countries.

#### **Outlook**

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The outlook for global commodities remains robust, supported by a rising standard of living for the majority of the world's population. But the outlook also will be characterised by elevated volatility and scope for discontinuities. We expect a high average demand growth setting across our major commodities. Given the constraints on current and future supply growth, we expect to see higher real long-run prices than in the decade preceding the most recent six year period. However, the extent to which the industry is able to maintain existing margins will depend on trends in costs, productivity and the ability to limit the escalating capital costs of new developments.

[riotinto.com](http://riotinto.com) 5

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## **Table of Contents**

### **Group strategy**

#### **Vision**

To be the leading global mining and metals company.

#### **Strategy**

To invest in and operate large, long-term, cost-competitive mines and businesses, driven not by choice of commodity but by the quality of each opportunity.

#### **Strategic drivers**

Five strategic drivers are helping us deliver our strategy and achieve our vision: financial and operational excellence, growth, licence to operate, globalising the business, technology and innovation.

#### **Our strategic vision**

Our vision is to be the leading global mining and metals company. We aim to maximise total shareholder return by sustainably finding, developing, mining, processing and marketing the Earth's natural resources.

We seek to achieve this leadership by working according to our values and to sustain long-term business success by building and leveraging effective relationships with relevant stakeholders, including governments and local communities.

The benefits of sector leadership to our stakeholders mean:

Delivering superior returns to our shareholders through excellent operating, development and investment performance.

Ensuring widespread and lasting economic benefits to host country communities.

Positioning us to respond to our customers' needs.

Providing our employees with leading training and career development opportunities and appropriate financial rewards.

Strong fundamentals position us well to achieve our vision: our portfolio includes some of the world's best assets, many of which set the standard for performance in their commodity sectors. Our strong balance sheet allows us financial flexibility and agility. Our people are highly capable and we are reaping the benefits of our increasingly diverse workforce that reflects our global reach. We are recognised as a responsible developer and operator of mining and refining operations around the world. This track record is built on the strong values defined in *The way we work* and the approach we have to the integration of sustainable development practices in everything we do.

#### **Our strategy**

Our investment in and operation of large, long-term, expandable, cost-competitive mines and businesses (also referred to as Tier 1 assets) define our path to sector leadership. Our choice of assets provides strong cash returns across the commodity cycle. Their expandability means we are well-placed to meet anticipated growth in demand as emerging economies urbanise and industrialise.

We pursue opportunities driven not by choice of commodity, but by the quality of each opportunity. We maximise the opportunities we identify by being in a position to choose between organic growth and value-focused acquisitions taking into account timing and market conditions. We target opportunities of sufficient magnitude and potential to meaningfully grow shareholder value. These investment decisions are subject to rigorous analysis of potential returns.

We are versatile in the way in which we develop and operate our assets. Operating across multiple jurisdictions we adhere to our commitment to safety, ethical conduct and environmental stewardship. We recognise the potential of partnerships with those who share similar values and whose specialist skills can add value to our projects.

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We believe value-creating investment is the first and best use for the cash generated by our businesses. We maintain the strength of our balance sheet to take advantage of the opportunities capital and commodity market volatility present. Beyond these aims, we return cash to our shareholders.

### Our strategic focus

Industry leaders aspire to excel not only in their business performance but in the way they conduct themselves. For Rio Tinto, this means a focus on distinctive performance in five fundamental areas: financial and operational performance; growth; licence to operate; globalising the business; and technology and innovation.

Our strategic focus requires a combination of the talents of people throughout our organisation – from individual mining and processing operations across the globe to shared functions that span our activities. Sharing common standards of best practice enables us to adapt to changing economic, market and political circumstances while achieving our performance goals. In every aspect of our strategy and our work we aim to create the processes and culture that puts safety in the forefront of our minds.

### Financial and operational excellence

In acquiring and divesting our assets and in marketing our commodities we apply our deep industry knowledge and experience to identify and capitalise on opportunities. We acquire quality assets at prices that will reward operational improvement under our ownership. We also seek the acquisition of assets that capital markets temporarily undervalue. Through prudent divestments we capture value from assets that no longer fit with our strategic direction.

We seek to maximise the value of the commodities we produce through effective marketing that ensures we respond to our customers' needs in terms of quality, blend, timing, delivery and appropriate pricing and contractual arrangements.

Our work in improving performance across all our operations is focused on achieving market-leading EBITDA margins and hence returns to our shareholders.

We constantly seek to enhance capital productivity in the operation of existing assets, as well as when we design expansions. We continuously identify and capitalise on latent system capacity so that we can safely deliver increased output volumes.

There is no area of our business in which we compromise on safety. We aim for the highest threshold to ensure safety of our employees and others who work with us. We engage in constant vigilance to protect our employees but also to embed the culture that makes safety a forethought rather than an afterthought.

We aim for world-class cost competitiveness and productivity in the operation and management of our assets. Even assets that are already among the lowest cost in their industries are expected to improve incrementally. These improvements are directed at enhancing margins, quickly and efficiently expanding production and positioning us to respond with greater effectiveness to marketing opportunities.

### Growth

We explore for and develop new and existing Tier 1 assets. Our objective is to develop these orebodies so as to deliver their greatest potential. We will do so in a way that delivers lasting benefits for our business and host economies and communities.

## **Table of Contents**

### **Business model**

#### **Key performance indicators**

Achievement of our strategy and goals is measured by a mixture of financial and non-financial performance indicators, some of which we link to executive remuneration.

We seek to protect and improve the value of resources through developing a diverse range of stakeholder relationships. We seek to achieve this through rapid organic growth at industry-leading capital and operating costs, without compromising our existing high safety and reliability levels.

Our objective is identifying and accessing major new projects through exploration and establishing lasting and community-oriented presence in resource-rich regions. In Mozambique, Mongolia and Guinea, we have developed comprehensive agreements that will create effective partnerships between the host governments and Rio Tinto. These will deliver value for investors through long-term benefits in operating cost, capital cost and licence to operate and value for the communities in terms of taxes, investment, cost-effective local sourcing and employment.

#### **Licence to operate**

External stakeholders are increasing their expectations of us in terms of our transparency in matters such as the taxes we pay but also in the way we engage with governments and the communities that host our operations. This is to ensure they benefit from the prosperity our operations will bring, that we protect the environment and leave a positive legacy when our mining is done. Our work in the area of stakeholder engagement is essential in building and maintaining our licence to operate.

Our approach to sustainable development should enable us to be seen as the industry partner of choice. On the environmental front we monitor and report the levels of greenhouse gases we emit and the volumes of water we consume, we seek to use low carbon energy sources and we engage with environmental agencies and NGOs to protect vulnerable environments.

#### **Globalising the business**

Globalising the business gives us many advantages. We have been able to achieve global standards, systems and processes that help us streamline the way we do things. It has encouraged and allowed us to become more agile and efficient as an organisation. Globalisation introduces us to a stimulating range of diversity that we are harnessing. On the one hand it ensures our approaches are appropriate at the local level, on the other the cross-pollination of ideas helps improve many aspects of the way we do business.

#### **Technology and innovation**

We apply technology and innovation to improve the way we do things. In particular it helps us to achieve greater safety as well as improving capital efficiency and enhancing productivity. We have adopted an innovative mindset not only by taking advantage of new science and technology, but innovations in our management and processes to find more efficient and effective ways to leverage our existing strengths. We employ innovative scientists and engineers find new ways in which we can protect the environment and improve the lives of those who live in communities surrounding our operations.

#### **Enabling our strategy**

Rio Tinto applies an organisation-wide effort to deploy the capabilities and skills required to achieve top performance in all areas. Where needed, we will accelerate and target training and leadership development programmes to ensure all of our people have the opportunity to contribute to achieving distinctiveness in each area.

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We create and preserve value through investing in and operating large-scale, long-term, cost-competitive mines and businesses. The nature of our business means that the life of an orebody may be for many decades. Throughout the life of a business, from initial exploration to final closure and restoration, we commit to the highest standards of sustainable development.

### Investing

#### Explore and evaluate

Rio Tinto has a knowledgeable and experienced in-house exploration team with a proven track record for discovering of Tier 1 orebodies. In addition to exploration, we create value through expansions and extensions of existing assets. Rio Tinto's orebody knowledge process allows us to evaluate value-enhancing approaches to developing, operating and expanding our resources and positioning our products in the market.

#### Develop

Rio Tinto develops orebodies with long-term value delivery in mind. Following the discovery of a resource, it must be thoroughly studied to identify the optimal configuration for development of the orebody and delivery of the product to the market. In some cases, we need to work closely with our customers to develop and prepare the market to take the type or grade of product that would enable us to maximise the value of resource over its lifecycle, for example by extending the life of the mine. As studies are undertaken, economic modelling confirms value. Once we have obtained internal and external approvals, the project moves to implementation and construction.

#### Operating

Rio Tinto creates value through safely and efficiently operating large, long-term, cost-competitive assets and the use of standard operating and maintenance practices across the Group, investing in our world-class assets throughout their lifecycles. An efficient process reduces the use of consumables, increases equipment operating time and optimises the extraction of ore – all of which results in higher production levels, reduced costs and optimisation of value.

#### Mine

We move millions of tonnes of material every day. We use world-class technologies and processes to plan, operate and maintain our equipment and activities. We invest and apply innovations to optimise productivity.

#### Process

Our leading proprietary technologies, such as that for aluminium smelting, ensure that recoveries are maximised and our processes are as efficient as possible. We produce material that is of the right quality for our customers.

#### Market

The majority of our customers are industrial companies who process our products into a wide range of applications supplied to end-users in the construction and infrastructure, automotive, industrial machinery and equipment, energy and consumer goods markets. We invest in long-term partnerships and constantly innovate and improve our products and services to maximise product value to customers. We then leverage our intimate knowledge of the market and the value chain to support our investment decision-making.

#### Deliver

In many cases, Rio Tinto is responsible for delivering product to our customers. We do this in a variety of ways, efficiently, reliably and cost effectively.

#### Close-down and restore

When a resource reaches the end of its life, we are committed to high standards of close-down and restoration. Integrating closure planning in the early stages of project development and through an asset's lifecycle helps us to leave a positive legacy of sustainable development, minimise financial impacts and ensure stakeholder expectations are met.



## **Table of Contents**

### **Key performance indicators**

Our key performance indicators (KPIs) give us a means to measure our financial and sustainable development performance. Their relevance to our strategic drivers, and our performance against these measures in 2011, are explained on these pages.

Our strategic drivers are: Financial and operating excellence; Growth; Licence to operate; Globalising the business; Technology and innovation.

#### **KPI trend data**

The Group's performance against each KPI is covered in more detail in later sections of this Annual report. Explanations of the actions taken by management to maintain and improve performance against each KPI support the data.

KPIs used as a key measure in the remuneration of executives are identified with this symbol:

**See the Remuneration report on page 86**

#### **All injury frequency rate (AIFR)**

**Per 200,000 hours worked**

Including former Alcan

**More information on page 14**

#### **Definition**

AIFR is calculated based on the number of injuries per 200,000 hours worked. This includes medical treatment cases, restricted work day and lost day injuries for employees and contractors.

#### **Relevance to strategy**

Our commitment to zero harm means that the AIFR is one of the Group's most important non-financial KPIs. Safety is a leading indicator of management performance. It is central to our focus on operational excellence and our licence to operate. A reputation for being a safe employer and neighbour helps us to gain access to the people and resources we need.

#### **Underlying earnings<sup>(a) (b)</sup>**

**US\$ millions**

**Definition**

Items excluded from net earnings to arrive at underlying earnings are explained in note 2 of the 2011 financial statements.

**Relevance to strategy**

Underlying earnings is a measure that provides insight into the underlying business performance of the Group's operations and is the key financial performance indicator used across the Group. This KPI provides insight to cost management, performance efficiency and production growth. It is therefore an indicator of financial and operational excellence and growth.

**Definition**

TSR combines share price appreciation and dividends paid to show the total return to the shareholder.

**Relevance to strategy**

TSR measures the Group's performance in terms of shareholder wealth generation through dividends and changes in the share price. As a measure of how we maximise shareholder return, this KPI measures our performance against our strategy as a whole. Relative TSR is also monitored, which gives insight into our performance against our peers.

**Definition**

Net debt is calculated as the net borrowings after adjusting for amounts due to equity accounted units originally funded by Rio Tinto, cash and cash equivalents, other liquid resources and derivatives related to net debt. This is further explained in note 25 Consolidated net debt of the 2011 financial statements.

More information on page 209

Total shareholder return (TSR)

%

More information on page 99

Net debt<sup>(a)</sup>

US\$ millions

More information on page 169

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### Relevance to strategy

A strong balance sheet gives us resilience in a volatile global economy. Net debt is a measure of how we are managing our balance sheet and capital structure, and is closely linked to our financial and operational excellence strategic driver.

8 [Rio Tinto 2011 Annual report](#)

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**Table of Contents**

Capital expenditure<sup>(a)(c)</sup>

US\$ millions

More information on page 211

**Definition**

Capital expenditure comprises the net cash outflow on purchases less disposals of property, plant and equipment, capitalised evaluation costs and purchases less disposals of other intangible assets.

**Relevance to strategy**

Our capital expenditure KPI connects to our growth strategic driver. It measures our level of investment in protecting and maintaining our existing assets, as well as our investment in the growth projects that will be our future Tier 1 operating assets. The geographic distribution of our capital expenditure is also a measure of how we are globalising the business.

Operating cash flows<sup>(a)</sup>

US\$ millions

Dividends from equity accounted units

Cash flow from consolidated operations

More information on page 133

**Definition**

Operating cash flows represents the cash generated by the Group's consolidated operations, before payment of interest, taxes, capital expenditure and cash flows relating to financing activities. The measure is equivalent to cash flow from consolidated operations in the Group cash flow statement. In 2011, product group operating cash flows reported on pages 20 to 28 have been adjusted to exclude funding of defined benefit pension deficits; comparative figures have been modified accordingly.

**Relevance to strategy**

Operating cash flow is a complementary measure to underlying earnings. It is employed as a measure of business performance and links to two of

our strategic drivers: growth, and financial and operational excellence.

## Greenhouse gas emissions intensity

### Indexed relative to 2008

Excluding former Alcan

More information on page 17

### Definition

Our greenhouse gas (GHG) emissions intensity measure is the change in total GHG emissions per unit of commodity production relative to a base year. Total GHG emissions are direct emissions plus emissions from imports of electricity minus electricity and steam exports and net carbon credits purchased from, or sold to, recognised sources.

### Relevance to strategy

We use GHG emissions intensity as a KPI because of the urgent need for climate action, and because it is one of the most widely recognised environmental issues. The KPI links to our licence to operate and our technology and innovation work, which are key drivers of our strategy.

\*2008 intensity is shown both excluding former

Alcan, and including former Alcan indexed to 100.

### Notes

- (a) The accounting information in these charts is drawn up in accordance with IFRS.
- (b) Underlying earnings is the key financial performance indicator which management uses internally to assess performance. It is presented here as a measure of earnings to provide greater understanding of the underlying business performance of the Group's operations. Items excluded from net earnings to arrive at underlying earnings are explained in note 2 to the 2011 financial statements. Both net earnings and underlying earnings deal with amounts attributable to the owners of Rio Tinto. However, IFRS requires that the profit for the year reported in the income statement should also include earnings attributable to non-controlling interests in subsidiaries.
- (c) Amounts include 100 per cent of subsidiaries' capital expenditures and Rio Tinto's share of the capital expenditure of equity accounted units.

## **Table of Contents**

### **Risk factors**

#### **Principal risks and uncertainties**

Rio Tinto's business units and functions assess the potential economic and non-economic consequences of their respective risks using the framework defined by the Group's *Risk policy and standard*. Principal risks and uncertainties are identified when the Risk management committee, business unit or function determines that the potential consequences are materially significant at a Group level or where the risk is connected and may trigger a succession of events that, in aggregate, become material to the Group. Once identified, each principal risk and uncertainty is reviewed by the relevant internal experts and by the Risk management committee.

The following describes all known principal risks and uncertainties that could materially affect Rio Tinto. There may be additional risks unknown to Rio Tinto and other risks, currently believed to be immaterial, which could turn out to be material. The risk factors outlined below omit the management detail on how each is managed and mitigated, or how some risks could result in either a positive (upside) or negative (downside)

impact. Risks may materialise individually, simultaneously or in combination and could significantly affect the Group's:

Short, medium and long-term business and prospects;

Earnings and cash flow;

Overall financial results and product demand;

Current asset values;

Future asset values and growth potential;

Safety plus long, medium and short-term health;

Environmental effects; or

Group or business unit reputation.

The principal risks and uncertainties should be considered in connection with any forward looking statements in this document and the cautionary statement on the inside front cover.

#### **External risks**

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|   |   |
|---|---|
| <b>Commodity prices and global demand for the Group's products are expected to remain uncertain.</b>                  | Commodity prices and demand are cyclical and strongly influenced by world economic conditions. The Group's normal policy is to sell its products at prevailing market prices and not to enter into price hedging arrangements. Persistent economic imbalances that have led to recent volatility in commodity prices and demand may continue.   |
| <b>Past strong demand for the Group's products in China could be affected by future developments in that country.</b> | The Group is heavily reliant on the China market and a major economic downturn in China, or if Chinese customers source products from elsewhere, would have effects across all of the Group's products. The basis on which the Group prices iron ore in Asia is evolving and sales to other iron ore customers may be influenced by any changes.  |
| <b>Rio Tinto is exposed to fluctuations in exchange rates.</b>  | The great majority of the Group's sales are denominated in US dollars, which is also the currency used for holding surplus cash, financing operations, and presenting external and internal results. Although many costs are incurred in US dollars, significant costs are influenced by the local currencies of the countries where the Group operates, principally the Australian dollar, Canadian dollar and euro. The normal policy is to avoid hedging of foreign exchange rates and so the Group is vulnerable to appreciation in the value of other currencies against the US dollar, or to prolonged periods of exchange rate volatility. |
| <b>Political, legal and commercial changes in the places where the Group operates.</b>                                | The Group has operations in jurisdictions where governments and communities are seeking a greater share in mineral wealth. In some jurisdictions commercial instability can arise from a culture of bribery and corruption. Some operations are conducted under specific agreements with respective governments and associated acts of parliament. In several countries land title and rights to land and resources (including Indigenous title) may be unclear. Political and administrative change, policy reform, and changes in law or government regulation can result in expropriation, or nationalisation.                                 |

In its operations and development projects, Rio Tinto is exposed to:

- Renegotiation, unilateral variation or nullification of existing agreements, leases and permits.
- Changes in government ownership of operations.
- Significant restoration and environmental clean-up costs.
- Currency and foreign investment restrictions.
- Changes in taxation rates, regimes or international tax agreements.

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Limitations to power, water, energy and infrastructure access.

General increases in regulation.

Political instability and uncertainty or government changes to the fiscal terms covering the Group's operations may discourage future investments.

### **Community disputes in the countries and territories in which the Group operates.**

Some of the Group's current and potential operations are located in or near communities that may regard the operation as being detrimental to their circumstances. Community expectations are typically complex with the potential for multiple inconsistent stakeholder views that may be difficult to resolve. Stakeholder opinion and community acceptance can be subject to many influences, for example, related industries, operations of other groups, local, regional or national events in other places where we operate. In the extreme, our operations may be a focus for civil unrest or criminal activity.

## **Table of Contents**

### **Strategic risks**

**The Group may be unable to maintain the planned rate of growth due to possible constraints on the rate of capital expenditure.**

Rio Tinto has embarked on a substantial growth programme of capital investment in greenfield and brownfield projects to bring on new capacity and to extend the life of existing operations. These projects form a portfolio that is actively managed. However, the ability to achieve the expected growth schedule and objectives is dependent on many interconnected elements. Should some of our plans fail to materialise as expected, the planned rate of capital expenditure may not be achieved.

**The Group's exploration and development of new projects might be unsuccessful, expenditures may not be fully recovered and depleted ore reserves may not be replaced.**

Rio Tinto identifies new orebodies and mining properties through its exploration programme, and develops or expands other operations as a means of generating shareholder value. Exploration is not always successful and there is a high degree of competition to develop world-class orebodies. Some competitors, who have access to significant resources, may be motivated by political or other non-economic factors. The Group may not be able to source or maintain adequate project financing; or may be unable to find willing and suitable joint venture partners to share the cost of developing large projects.

**Rio Tinto may fail to make or successfully integrate acquisitions, or to complete divestment agreements.**

Business combinations entail a number of risks including the effective integration of acquisitions to realise synergies, significant one-time write-offs or restructuring charges, and unanticipated costs and liabilities. The Group may also be liable for the past acts, omissions or liabilities it has acquired that are unforeseen or greater than anticipated. The Group may also retain unforeseen liabilities for divested entities if the buyer fails to honour all commitments.

### **Financial risks**

**The Group's reported results could be adversely affected by the impairment of assets and goodwill.**

An asset impairment charge may result from the occurrence of unexpected events or changed expectations about the future. In accordance with IFRS, the Group does not amortise goodwill or indefinite life intangible assets but tests it annually for impairment; such impairments cannot be reversed.

**The Group's liquidity and cash flow expectations may not be realised as expected, inhibiting planned expenditure.**

The Group's ability to fund planned expenditure such as capital growth, mergers and acquisitions, innovation and other obligations may falter if its cash position proves inadequate. Our ability to weather a major economic shock for example in the eurozone could be compromised by insufficient cash reserves, a reduction in the value of existing reserves, or restricted access to our cash reserves.

**General cost inflation in the resources sector is affecting both operations and projects, resulting in significant pressure on capital and operating costs.**

Recently, many input costs in the resources sector have risen at a disproportionate rate, adversely affecting the economics of current operations and increasing the cost of our capital expansion projects. Many key costs are linked to commodity prices and in the case of capital expansion projects the time lag between incurring project costs and receiving revenue can result in additional exposure to commodity markets. Failure to contain costs may have an adverse impact on our operating margins and the viability of our capital expansion projects.

### **Operational risks**

**Estimates of ore reserves are based on uncertain assumptions that, if changed, could result in the need to restate ore reserves.**

There are numerous uncertainties inherent in estimating ore reserves including subjective judgments and determinations that are based on available geological, technical, contract and economic information. Previously valid assumptions may change significantly with new information, which may result in changes to the economic viability of some reserves and the need for them to be restated.

**Labour disputes could lead to lost production and/or increased costs.**

Some of the Group's employees, including employees in non-managed operations, are represented by labour unions under various collective labour agreements. The Group may not be able satisfactorily to renegotiate

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agreements when they expire and may face tougher negotiations or higher wage demands. In addition, labour agreements may not prevent a strike or work stoppage.

**Some of the Group's technologies are unproven and failures could adversely impact costs and/or productivity.**

The Group has invested in and implemented new technologies in both information systems and operational initiatives, some of which are unproven and their eventual viability cannot be assessed with certainty. The actual benefits of these technologies may differ materially from expectations.

**The Group may be exposed to major failures in the supply chain for specialist equipment and materials.**

Rio Tinto operates within a complex supply chain depending on suppliers of materials, services, equipment, infrastructure, and on providers of logistics. Significant supply chain failures for whatever reason could have an adverse effect on the Group's business.

**Joint ventures, strategic partnerships or non-managed operations may not be successful and may not comply with the Group's standards.**

The Group participates in several joint venture and partnership arrangements, and it may enter into others, all of which necessarily involve risk. Whether or not the Group holds majority interests or maintains operational control in its joint ventures, its partners may:

Have economic or business interests or goals that are inconsistent with, or opposed to, those of the Group.

Exercise veto rights to block actions that the Group believes are in its or the joint venture's best interests.

Be unable or unwilling to fulfil their obligations under the joint venture or other agreements, such as contributing capital to expansion or maintenance projects.

Where these joint ventures are controlled and managed by others, the Group may provide expertise and advice but has limited control over compliance with its standards and objectives; such that partners may take action contrary to the Group's policies with respect to its investment.

## **Table of Contents**

### **Risk factors**

#### **Operational risks continued**

**The Group's operations are vulnerable to a range of interruptions, not all of which are covered fully by insurance.**

#### **1. Natural disasters and events**

Mining, smelting, refining and infrastructure installations are vulnerable to natural events including earthquakes, drought, flood, fire, storm and the possible effects of climate change.

#### **2. Sustained operational difficulties**

Operating difficulties are many and various, ranging from unexpected geological variations that could result in significant ground or containment failure to breakdown of key capital equipment.

Reliable roads, rail networks, ports, power generation and transmission, and water supplies are required to access and conduct our operations.

The Group transports a large proportion of its products by sea. Limitations, or interruptions in transport infrastructure, including as a result of third parties gaining access to our integrated facilities, could impede its ability to deliver products. An extensive information technology infrastructure forms the backbone of many operations.

An extended failure of critical system components or malicious actions, including resulting from a cyber-security attack, could result in significant environmental incident, commercial loss or interruption to operations.

#### **3. Major operational failure**

The Group's operations involve chemicals and other substances under high temperature and pressure, with the potential for fire, explosion or other loss of control of the process, leading to a release of hazardous materials. This could occur by accident or a breach of operating standards, and could result in a significant incident.

The Group's insurance does not cover every potential loss associated with its operations and adequate coverage at reasonable rates is not always obtainable. In addition, insurance provision may not fully cover its liability

or the consequences of any business interruption. Any occurrence not fully covered by insurance could have an adverse effect on the Group's business.

**Sustainable development risks**

**Increased regulation of greenhouse gas emissions could adversely affect the Group's cost of operations.**

Rio Tinto's operations are energy intensive and depend heavily on fossil fuels. Worldwide, there is increasing regulation of greenhouse gas emissions, tighter emission reduction targets and progressive introduction of carbon pricing mechanisms. These are likely to raise worldwide energy, production and transport costs over the next few decades.

**The Group depends on the continued services of key personnel.**

The Group's ability to maintain its competitive position is dependent on the services of a wide range of highly skilled and experienced personnel available in the locations where they are needed. Failure to recruit and retain key staff, and the inability to deploy staff worldwide, where they are most needed, could affect the Group's business. Similar constraints may be felt by the Group's key consultants, contractors and suppliers with effects on its expansion plans.

**The Group's costs of close down, reclamation, and rehabilitation could be higher than expected.**

Close down and reclamation works to return operating sites to the community can be extensive and costly. Estimated costs are provided for, and updated annually, over the life of each operation but the provisions might prove to be inadequate due to changes in legislation, standards and the emergence of new reclamation techniques. In addition, the expected timing of expenditure could change significantly due to changes in the business environment that might vary the life of an operation.

**Regulations, standards and stakeholder expectations in health, safety, environment and community evolve over time and unforeseen changes could have an adverse effect on the Group's business and reputation.**

The resources sector is subject to extensive health, safety and environmental laws, regulations and standards alongside community and stakeholder expectations. Evolving regulation, standards and stakeholder expectations could result in litigation or, in extreme cases, threaten the viability of an operation even where the underlying dispute is not material to the Group.

## **Table of Contents**

### **Performance**

### **Contents**

|  |    |
|--|----|
| Performance                                    |    |
| <u>Sustainable development</u>                 | 14 |
| <u>Aluminium</u>                               | 20 |
| <u>Copper</u>                                  | 22 |
| <u>Diamonds &amp; Minerals</u>                 | 24 |
| <u>Energy</u>                                  | 26 |
| <u>Iron Ore</u>                                | 28 |
| <u>Business Support &amp; Operations</u>       | 30 |
| <u>Exploration</u>                             | 30 |
| <u>Other Business Support &amp; Operations</u> | 30 |
| <u>Technology &amp; Innovation</u>             | 31 |
| <u>Financial review</u>                        | 32 |
| <u>Five year review</u>                        | 39 |
| <u>Acquisitions and divestments</u>            | 40 |
| <u>Capital projects</u>                        | 41 |

## **Table of Contents**

### **Sustainable development**

#### **Performance data**

Our sustainable development performance data are reported for calendar years and, unless stated otherwise, represent 100 per cent basis at each managed operation, even though Rio Tinto may have only partial ownership.

Data reported in previous years may be modified if verification processes detect material errors, or if changes are required to ensure comparability over time.

Wherever possible, data for operations acquired prior to 1 October of the reporting period are included. Divested operations are included in data collection processes up until the transfer of management control.

We report in line with the GRI G3 guidelines at Application level A+ and have implemented the International Council on Mining and Metals (ICMM) sustainable development framework ([www.icmm.com](http://www.icmm.com)).

#### **Safety**

We are committed to achieving our vision of zero harm. Our safety strategy prioritises eliminating workplace fatalities and permanent damage injuries or illnesses. Leadership remains a crucial factor in achieving these priorities and creating a culture that will eliminate all injuries from the workplace over time. Our management system provides the framework for hazard identification, risk analysis and risk management into all aspects of our activities.

Regrettably, six people lost their lives whilst working at Rio Tinto managed operations and operations held for divestment in 2011. The events were an electric shock incident at the Iron Ore Company of Canada, two people drowning at Oyu Tolgoi in Mongolia, a drowning and a crush incident at Rio Tinto Iron Ore in Australia and a crush incident at Zululand Anthracite Colliery in South Africa (identified for divestment). We provided support and counselling to the families and workmates affected by these events. In addition, after each of these incidents, as is the custom at Rio Tinto, we conducted in-depth investigations of the causes of these incidents and ensured that the conclusions were communicated across the Group to prevent similar events from recurring.

We measure progress toward our goal of zero injuries through the all injury frequency rate (AIFR), which includes data for employees and contractors. At the end of 2011 our AIFR was 0.67, an improvement of two per cent over the last year.

The Group-wide safety risk management programme focuses equally on personal safety, process safety and major safety hazards, and we have processes in place to manage each of these areas. This includes the application of a Semi Quantitative Risk Assessment (SQRA<sup>TM</sup>) process which applies a structured approach to the identification and evaluation of higher consequence/lower frequency hazards. The risk reduction resulting from the SQRA<sup>TM</sup> process, along with the monitoring of critical controls, is used as a Group-wide leading indicator for safety performance.

Rio Tinto has required disclosures relating to mine safety violations or other regulatory matters in accordance with Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act that are included in Exhibit 99.1 to this filing.

#### **Greenhouse gas emissions and energy use**

We accept the need for climate change action and recognise that this is a great challenge and also an opportunity. We support government policies to deliver comprehensive, long-term responses that are efficient, effective and equitable but seek to maintain business competitiveness during a period of global policy transition. We seek to lower the greenhouse gas emissions footprint of our products.

Our climate change programme is focused on reducing our emissions, understanding and developing low emission product pathways and engaging with governments and stakeholders to advocate sound domestic and international policies.

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We have reduced our total greenhouse gas (GHG) emissions intensity by 3.8 per cent between 2008 and 2011. Our total GHG emissions were 43.4 million tonnes of carbon dioxide equivalent in 2011, 0.3 million tonnes higher than in 2010.

Rio Tinto is both an energy user and producer. Our operations use hydroelectricity, nuclear and fossil-fuel based power, coal, oil, diesel and gas. This year our energy use increased by 0.6 per cent to 516 petajoules.

Two thirds of our energy use in 2011 came from low greenhouse gas emitting hydro, nuclear and other renewable power sources. Our hydroelectric power facilities in Canada, Scotland and Norway have a capacity of 3,972 MW.

To drive improvements in energy efficiency our businesses have set a range of local efficiency targets that cover nearly three quarters of the Group's energy use. Our programmes focus on energy innovation at the early stages of project planning and building the capacity to identify, engineer and implement meaningful energy efficiency projects. We remain a world leader in aluminium smelting technology development and are building our knowledge of renewable technologies. Through our coal and uranium sales, we supplied 3,556 petajoules of world energy demand, seven times more than our energy use.

We face costs associated with greenhouse gas emissions or renewable energy obligations in Europe, Australia, New Zealand, various US states and Canadian provinces. As a result, over 85 per cent of our operations are covered by existing or legislated carbon pricing legislation.

**Table of Contents**

**Aluminium**

**Financial performance**

|                      | <b>2011</b>         | <b>2010</b>         |
|----------------------|---------------------|---------------------|
|                      | <b>US\$ million</b> | <b>US\$ million</b> |
| Revenue              | 12,159              | 11,313              |
| Operating cash flow  | 1,216               | 1,225               |
| Underlying earnings  | 442                 | 611                 |
| Capital expenditure  | 1,957               | 963                 |
| Net operating assets | 26,204              | 30,815              |

Figures for 2011 and restated figures for 2010 exclude assets identified for divestment or closure. These assets are now managed by the Rio Tinto Business Support & Operations group.

**Strategy**

Second stage of transformation, already in progress, to deliver another US\$1 billion of sustainable, incremental EBITDA and increase long-term margins to 40 per cent.

Targets to be achieved through a combination of disciplined portfolio management, business improvement initiatives, and investment in modernisation and expansion of Tier 1 assets.

Combination of growth and portfolio management to increase the group's long position in both bauxite and alumina, and help supply China's growing raw material needs.

Commitment to shareholder value and harnessing the group's crucial competitive advantages such as proprietary AP Technology and clean, low-cost hydroelectricity.

Capitalise on the group's interests in some of the largest bauxite mines in the world and to access many of the industry's best reserves and mineralised materials.

Continue supporting the group's global commercial presence and reliably deliver to customers at all stages of the supply chain, from sales of bauxite through to value-added aluminium products and technology sales.

**Safety**

The group decreased its all injury frequency rate by 16 per cent to 0.59 in 2011<sup>(a)</sup>. Rio Tinto Alcan experienced no fatalities at its managed sites. Regrettably, there were two fatalities at its non-managed MRN joint venture alumina operation in Brazil (Rio Tinto Alcan share 12 per cent) during a truck roll-over accident.

A key priority has been the implementation of Rio Tinto HSE performance standards and risk management practices. Process safety management has progressed significantly, with reporting, investigation and analysis of significant potential incidents and completion of corrective actions as a main focus.

The Grande-Baie aluminium smelter in Quebec, Canada was awarded the 2011 Chief Executive Safety Award. Grande-Baie has implemented structured training programmes which include an induction that starts six weeks before employees begin work. Its personnel show genuine ownership of safety across the operation and there is visible celebration of safety successes as well as a focus on learning from incidents. Rio Tinto Alcan's Carbone Savoie business also earned recognition

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and received the 2011 Chief Executive Most Improved Safety Performance Award.

### Greenhouse gas emissions

Rio Tinto Alcan contributed 19 per cent of Rio Tinto's total greenhouse gas emissions (GHG) in 2011. The group's reduced proportion of the company's overall emissions levels is a result of the announcement in October to divest 13 non-core operations<sup>(b)</sup>. Realised reductions contributed significantly to the Rio Tinto Group's overall intensity improvements.

Total GHG intensity at Rio Tinto Alcan was reduced by 49 per cent in 2011 from 2008 baseline performance, which is attributable to portfolio changes and operational improvements. Furthermore, the expansion and modernisation projects are expected to further solidify Rio Tinto Alcan's position as having the lowest carbon footprint in the industry and will help deliver on Group GHG commitments. In addition to Rio Tinto Alcan's

significant hydroelectric advantages for aluminium smelting, the implementation of co-generation at the Yarwun alumina refinery will contribute to improving its GHG emission intensity.

Rio Tinto Alcan has worked closely with various regional governments during development of climate change policies and regulations, and participates in numerous community programmes aimed at addressing climate change concerns where it operates. The group has developed adaption strategies and integrated potential impacts of climate change into its risk management processes.

### Review of operations for the year

In 2011, Rio Tinto Alcan's contribution to the Group's underlying earnings was US\$442 million, a decrease of US\$169 million from 2010. Higher exchange traded aluminium prices increased earnings by US\$574 million compared to 2010. This was offset by adverse currency movements of US\$282 million, mainly from the strengthening of the Canadian and Australian dollars against the US dollar, and higher costs from increased input prices for caustic, coke and pitch, as well as adverse weather impacts. Transformation benefits realised in 2011 offset some of the cost pressures from current market conditions resulting in a full year EBITDA margin of 20 per cent.

In October 2011, Rio Tinto announced the intention to divest or close 13 non-core operations including specialty alumina plants in Europe, the Gardanne refinery in France, the Lynemouth smelter and power station in the UK, the Sebree smelter in the US, and Pacific Aluminium operations (see page 30).

The annual impairment review resulted in a goodwill impairment charge of US\$6.6 billion for Rio Tinto Alcan. The impairment was largely a result of the current economic environment and related market volatility in aluminium prices in the second half of 2011 leading to declines in market values for aluminium assets.

The average aluminium market price in 2011 was US\$2,395 per tonne compared with US\$2,173 per tonne in 2010. Rio Tinto Alcan's average realised price for ingot products in 2011 was US\$2,715 per tonne compared with US\$2,457 in 2010. In the second half macroeconomic concerns took hold, particularly the unfolding debt crisis in Europe, thereby reducing prices to below US\$2,000 per tonne towards the end of 2011.

In 2011, Rio Tinto Alcan's annual bauxite production was 28.2 million tonnes, up from 25.9 million tonnes in 2010 and driven by increased third-party demand.

Alumina production decreased to 5.8 million tonnes in 2011 from 6.1 million tonnes in 2010, mainly due to abnormally heavy rains in Australia in early 2011 that impacted Queensland Alumina.

Aluminium production was broadly consistent year on year. Higher production at the Laterrière smelter in Quebec following a transformer failure in July 2010 was offset by a loss of production following two transformer incidents at the Dunkerque smelter in France in May and August 2011, and lower production at the Kitimat smelter in Canada in preparation for the modernisation project.

Gross sales revenue for Rio Tinto Alcan increased by seven per cent compared with 2010. The group's casthouses continue delivery of value added products and improved performance by implementing LEAN manufacturing processes. Rio Tinto Alcan continues to develop its value-added product capabilities in existing plants with strategies to meet future needs in the billet, slab, rod, high purity, foundry and remelt markets.

### Growth and innovation

Rio Tinto Alcan made progress with its priority projects, including several initiatives towards increasing its long position in both bauxite and alumina.

The group is completing feasibility and environmental impact studies for the South of Embley bauxite extension at the current Weipa mine



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## **Table of Contents**

operations in Australia. This project would allow for staged increases in production to as much as 36 million dry product tonnes per year and provide quality bauxite to the group's regional refineries and export markets. Approval to proceed with the project is expected in 2012, depending on regulatory and internal conditions.

Also in Australia, the Yarwun alumina refinery expansion in Queensland is over 90 per cent complete and is expected to more than double production to 3.4 million tonnes per year, with start-up planned for the second half of 2012.

The group's aluminium growth strategy focuses on high-return production capacity increases and modernisation projects that leverage renewable, low-cost hydroelectric power. The Aluminium group's portfolio was restructured in October 2011, resulting in the creation of Pacific Aluminium. The assets comprising Pacific Aluminium have been identified for divestment. Almost 85 per cent of the group's energy is hydroelectric and in the lowest-cost quartile for power. Furthermore, its technological capabilities continue to create value from sales, faster operational improvements (eg production capacity creep), and lower full economic costs on capital projects.

The modernisation project for the Kitimat smelter in British Columbia, Canada received final approval in December 2011. This project will increase production capacity to approximately 420 thousand tonnes per year. The modernised smelter will be powered exclusively by self-generated hydroelectricity and use AP40 technology to cut total emissions intensity by about half. Once completed, Kitimat will be one of the lowest-cost smelters in the world, with one of the lowest carbon footprints in the aluminium industry. Completion of the US\$3.3 billion project is expected in 2014.

The replacement of high-cost capacity at the Arvida smelter with the AP60 plant, phase one of which is currently under construction in the Saguenay-Lac-Saint-Jean region in Quebec, as well as the ISAL smelter modernisation and expansion of the casting centre in Iceland, are also designed to help move Rio Tinto Alcan further down the cost curve. Common objectives among all our selected projects include a low carbon footprint, low operating costs and attractive projected returns on capital.

## **Outlook**

Uncertain macroeconomic conditions, together with stronger currencies in some regions and high raw material costs, have unfavourably impacted the aluminium industry. Growth in demand for aluminium remains strong but the industry has been running surpluses for the past five years, and the short-term economic outlook remains volatile. Rio Tinto Alcan therefore continues to improve its performance and refocus on its core assets, in particular its world-class bauxite resources, industry-leading technologies and a modern portfolio of large-scale, long-life, hydroelectricity-based smelters.

In the longer term, Rio Tinto Alcan believes that the fundamentals of its industry remain strong, with aluminium demand forecast to grow by almost six per cent per year through to 2020. The robust growth is expected to be underpinned by emerging economies and a growing appreciation among end users in developed markets of aluminium's advantageous physical properties – most notably its lightness and its infinite recyclability. The underlying factors that are driving strong demand growth for structural commodities remain intact, as continued urbanisation and industrialisation in large, populous nations such as China and India drive base metal demand.

The group expects to see ongoing development of new applications in the construction, aerospace and automotive sectors as pressure on fuel consumption increases, along with increased substitution of aluminium in place of more expensive alternatives in areas such as power generation.

Growth in aluminium capacity will increase demand for bauxite and alumina. Official bauxite reserves suggest that China may not have sufficient bauxite to fully meet increasing alumina production demand.

The dramatic upsurge in bauxite imports into China over the last five years supports this scenario.

Securing access to bauxite supplies will remain an issue as uncertainty surrounding value add requirements and mining legislation in key jurisdictions adds complexity for the industry.

Global aluminium supply is expected to continue tracking demand, with increased production coming primarily from north-western China, the Middle East and India. There is credible rationale for a continued steepening of the industry cost curve, with costs for crucial inputs such as bauxite and electricity on the rise. This is especially the case in China where producers are also impacted by the appreciation of the renminbi.

As demand grows, Rio Tinto Alcan expects to benefit from its low-cost structure, sustainable transformation improvements, and its position as an integrated producer throughout the value chain – and moving to a longer position in bauxite and alumina.

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Rio Tinto Alcan's industry-leading growth pipeline includes attractive Tier 1 opportunities for the long-term with a mixture of greenfield and brownfield options throughout the world. Projects in various stages of study and development include the future expansion options for the AP60 plant, and aluminium and hydropower projects in Cameroon, and will be paced with market needs.

(a) Safety

The aluminium assets identified for divestment or closure and now managed by Business Support & Operations (Pacific Aluminium and Other aluminium) had an all injury frequency rate of 0.70 in 2011, an improvement of 11 per cent from 2010.

(b) GHG

Pacific Aluminium accounted for 28 per cent of Rio Tinto's total GHG emissions in 2011, and Other aluminium accounted for 16 per cent of total GHG emissions.

**Table of Contents**

**Copper**

**Financial performance**

|                      | 2011         | 2010         |
|----------------------|--------------|--------------|
|                      | US\$ million | US\$ million |
| Revenue              | 7,634        | 7,797        |
| Operating cash flow  | 3,134        | 4,125        |
| Underlying earnings  | 1,932        | 2,530        |
| Capital expenditure  | 3,784        | 990          |
| Net operating assets | 12,094       | 7,718        |

**Strategy**

The Copper group's strategy is to deliver shareholder value by:

Optimising operating assets with meaningful improvements in safety and productivity, and through investment in innovative technologies.

Progressing the group's high-quality growth projects.

Collaborating with local governments and communities to contribute to sustainable development.

Developing the leadership and talent needed to deliver growth.

**Safety**

In 2011, the Copper group's all injury frequency rate was 0.56, versus 0.57 in 2010. The group recorded 81 lost-time injuries including, regrettably, two fatalities at its Oyu Tolgoi project in Mongolia.

The Copper group is committed to providing a workplace where zero harm is possible. To that end, the group is developing enhanced programmes and procedures to manage process safety, underground safety and contractor management activities. In addition, the group is embedding the need for all leaders and employees to focus on personal safety and work collaboratively toward a goal of zero harm.

**Greenhouse gas emissions**

The Copper group's 2011 greenhouse gas (GHG) emissions were 8.14 tonnes of CO<sub>2</sub>e per tonne of copper cathode produced, compared with 8.75 in 2010, as Kennecott Utah Copper, which accounts for 54 per cent of the Copper group's total GHG emissions, reduced generation at its main power plant in response to lower electricity prices.

To reduce greenhouse gas emissions, Kennecott is testing alternative fuel vehicles, best-in-class lighting technologies, equipment optimisation projects, and adoption of other developing technologies.

**Review of operations for the year**

The Copper group portfolio is made up of large, long-life operations, including:

**Kennecott Utah Copper (Rio Tinto: 100 per cent)**

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Kennecott Utah Copper, adjacent to Salt Lake City, produces about 25 per cent of US copper and molybdenum supply and provides more than 17 per cent of US refined copper requirements. In 2011, Kennecott produced 215 thousand tonnes of refined copper, 379 thousand ounces of refined gold, and 30 million pounds of molybdenum.

### Escondida (Rio Tinto: 30 per cent)

Operated by BHP Billiton, Escondida is the world's largest copper-producing mine. Located in Chile's Atacama Desert, it represents eight per cent of global production and 33 per cent of all copper production from Chile. In 2011, Escondida produced 759 thousand tonnes of mined copper (100 per cent basis).

### Grasberg (a joint venture gives Rio Tinto a 40 per cent share of production above specified levels until 2021 and 40 per cent of all production after 2021)

Grasberg is owned and operated by PT Freeport Indonesia, a subsidiary of US-based Freeport-McMoRan Copper & Gold Inc. Located in the province of Papua in Indonesia, it is one of the world's largest copper mines. In 2011, Rio Tinto's share of production from Grasberg was 17 thousand tonnes of mined copper and 178 thousand ounces of mined gold.

### Northparkes (Rio Tinto: 80 per cent)

Based in New South Wales, Australia, Northparkes is a joint venture with the Sumitomo Group. Northparkes produced 50 thousand tonnes of mined copper and 76 thousand ounces of mined gold in 2011, (100 per cent basis).

### Palabora (Rio Tinto: 57.7 per cent)

Palabora Mining Company is a South African company (listed on the Johannesburg Stock Exchange) based in Limpopo Province. Palabora produced 59 thousand tonnes of refined copper in 2011 (100 per cent basis). In September 2011, Rio Tinto announced plans to divest its interest in Palabora and a commercial process to do so is under way.

### Growth and innovation

During the next three years, the Copper group will invest more than US\$4.5 billion of capital in its existing operations.

In the first half of 2011, the group began a US\$238 million feasibility study to extend the mine life at Kennecott Utah Copper's Bingham Canyon mine. With this expansion, Bingham Canyon will mine an additional 974 million tonnes of ore and recover 3.7 million tonnes of copper, 4.1 million ounces of gold and 584 million pounds of molybdenum. Total capital expenditure for the mine expansion project is expected to be between US\$2 billion and US\$3 billion.

Rio Tinto has also approved a US\$165 million investment to conduct pre-feasibility studies for the North Rim Skarn, a proposed underground operation that would operate in parallel with the Bingham Canyon open pit and produce an estimated 50 thousand tonnes of copper per year, with gold and silver by-products, at grades significantly higher than the current open pit reserves.

In 2012, the Copper group will complete construction of a Molybdenum Autoclave Process at Kennecott Utah Copper, which will improve recovery rates by seven per cent. Phase one will begin commissioning towards the end of 2012, with an initial capacity of 30 million pounds, increasing to 60 million pounds in early 2015.

Escondida is constructing a new 152 thousand tonnes per day concentrator that is expected to increase production by 2015. Construction of a new dynamic oxide leaching pad will maintain current processing capacity following the completion of the existing heap leach in 2014. The current sulphide leach pad is also being expanded. Moving crushing and conveying systems in the pit will provide access to high-grade ore and a fourth ball mill will be added to the Laguna Seca concentrator.

In Indonesia, Grasberg continues its transition to underground block cave mining. Grasberg's US\$3.7 billion underground project will ultimately produce 160 thousand tonnes of ore per day and is expected to come on line in 2016, when the current open pit mine will be depleted. In addition, construction has begun on the Deep Mill Level Zone block cave mine, which is expected to begin production in 2015. This US\$2 billion project will produce an additional 80 thousand tonnes of ore per day at full capacity.

At the Northparkes mine, the group continues to evaluate a step change expansion that will increase metal production threefold, add more than 20 years to the life of the mine. The pre-feasibility phase of the project is expected to be complete in late 2012, with construction beginning in 2013.



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## **Table of Contents**

### **Oyu Tolgoi (2012 - Rio Tinto: 51 per cent interest in Ivanhoe Mines Limited)**

The Oyu Tolgoi project in Mongolia has the potential to be a top ten copper producer and one of the world's largest producers of gold. During 2011, Rio Tinto increased its holding in Ivanhoe Mines Limited (which holds a 66 per cent interest in Oyu Tolgoi) from 40.3 per cent to 49 per cent and fully participated in Ivanhoe's rights offering. Consideration for these transactions totalled US\$1.9 billion. Following expiry of the standstill agreement on 24 January 2012, Rio Tinto moved to a majority stake in Ivanhoe, having purchased shares that take it to 51 per cent interest.

Rio Tinto is the manager of the Oyu Tolgoi project, which is on track for first commercial production in 2013. Phase one includes the development of an open pit mine and a 100 thousand tonne per day concentrator. Total capital expenditure for the first phase is approximately US\$6 billion.

Rio Tinto expects phase two of Oyu Tolgoi, which includes developing an underground mine and expanding the mill to 160 thousand tonnes per day, to begin production in 2015. Oyu Tolgoi's underground reserve grades are nearly four times those of the open pit.

### **La Granja (Rio Tinto: 100 per cent)**

La Granja, in Peru, is wholly owned by Rio Tinto, and is currently the world's seventh-largest undeveloped copper resource. In the fourth quarter of 2011, Rio Tinto approved funding to begin pre-feasibility work on the project, which would be developed over a nine-year timeframe using a staged development approach. La Granja's initial leaching operation envisions production of up to 100 thousand tonnes of copper per year, with the potential to expand to 250 thousand tonnes. The subsequent addition of a concentrator could add another 250 thousand tonnes of copper production, bringing total copper production to 500 thousand tonnes per year.

### **Resolution Copper (Rio Tinto: 55 per cent)**

The Resolution Copper project, located in the US state of Arizona, is the third-largest undeveloped copper resource in the world. Rio Tinto expects to complete pre-feasibility studies in 2012, with the aim of production starting in the next ten years. With grades at around 1.5 per cent, Resolution currently plans to produce in excess of 600 thousand tonnes of copper per year at peak production, with significant amounts of molybdenum as a by-product.

To realise the full potential of the project, Resolution Copper needs access to public land where mining is currently prohibited. In exchange, the project would give the public more than 2,400 hectares of high-quality conservation lands. A bill outlining the parameters of this exchange has been pending before the US Congress since 2005. In October 2011 the US House of Representatives voted to approve the bill, which now awaits consideration by the Senate.

### **Technology and innovation**

The Copper group continues to invest in advanced mining technologies designed to give access to more copper, sooner and with greater efficiencies.

In 2012, the Copper group will commission a tunnel boring system at Northparkes, that it is developing with Aker Wirth. The group is also evaluating full-scale prototype trials of additional tunnel boring machines and a shaft boring system. When used in combination, these two boring systems have the potential to decrease the time it takes to construct an underground mine by 40 per cent, compared to conventional methods.

At Kennecott Utah Copper, the Copper group has begun construction of a pilot plant facility to test its CopperNuWave recovery technology, that upgrades marginal ore or waste material, reduces energy consumption and more efficiently uses concentrator capacity. The group expects to commission the facility in the second quarter of 2012.

### **Outlook**

In the short term, Rio Tinto sees ongoing volatility in the market.

Supply continues to be challenged – a result of decreasing grades and disruptions at existing mines, while new discoveries are increasingly located at depth and in developing regions with higher sovereign risks, and the need for increased levels of stakeholder engagement. This will favour organisations with strong social, environmental, operating, and technical mining skills, such as Rio Tinto's Copper group.

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The long-term demand picture has not changed and growth will remain robust and continue to be driven by urbanisation, electrification and industrialisation in China and other emerging markets. In addition, increased focus on renewable sources of energy and energy efficiency will be beneficial for copper in the long term.

In 2011, Rio Tinto experienced a dip in copper ore grades, although gold and molybdenum grades have remained strong. The Group expects to see improving grades in the second half of 2012 and into 2013. Production from the existing mines will be supplemented with Oyu Tolgoi's first commercial production in 2013, and the Copper group's growth pipeline contains a number of promising projects.

[riotinto.com](http://riotinto.com) 23

**Table of Contents**

**Diamonds & Minerals**

**Financial performance**

|                      | <b>2011</b>         | 2010         |
|----------------------|---------------------|--------------|
|                      | <b>US\$ million</b> | US\$ million |
| Revenue              | 3,220               | 3,035        |
| Operating cash flow  | 333                 | 598          |
| Underlying earnings  | 252                 | 328          |
| Capital expenditure  | 639                 | 300          |
| Net operating assets | 3,605               | 4,580        |

**Strategy**

Demand for diamonds and industrial minerals typically follows peak requirements for commodities such as iron ore and copper. Diamonds & Minerals intends to capitalise on this trend by strengthening its portfolio and securing opportunities for profitable growth. The product group strategy is to:

Improve its existing businesses' operational and commercial performance.

Build capacity by executing growth projects within its existing asset base.

Grow its portfolio through value accretive exploration and acquisitions in existing and complementary sectors.

**Safety**

Diamonds & Minerals continues to focus on fostering a culture of accountability and awareness among employees and improving contractor safety. The product group's all injury frequency rate (AIFR) rose slightly to 0.56 in 2011 compared to 0.51 in 2010.

Rio Tinto Minerals (RTM) operations achieved an AIFR of 0.36 in 2011, down from 0.65 in 2010. RTM also led National Mining Association efforts to improve safety standards among US mining companies.

Rio Tinto Iron & Titanium (RTIT) operations reported a slight increase in injury rates to an AIFR of 0.57 in 2011 from 0.52 in 2010. A concerted effort to improve employee engagement at the front lines is helping to build a stronger safety culture throughout the business.

Rio Tinto Diamonds' (RTD's) safety performance across its sites in 2011 was mixed. In a year that saw a transition from open pit mining to underground operations at two of its sites, RTD's safety performance declined with an AIFR of 0.66 in 2011, up from 0.36 in 2010. All RTD businesses have renewed their efforts to improve overall safety performance. On the upside Murowa achieved the best safety performance in the product group and Diavik's underground mine rescue team was recognised as the best in the western region of North America.

**Greenhouse gas emissions**

Overall greenhouse gas (GHG) emission intensity declined slightly across the product group due to higher production levels and more efficient equipment and technology. Improvements included shorter-haul routes and recycling programmes to extract ore from tailings.

GHG emissions per tonne of product improved slightly at RTM in 2011, and intensity decreased by two per cent across RTIT's operations, reflecting efficiencies associated with higher production levels and new technology.

GHG emission intensities improved at Diavik and Murowa but increased at Argyle due to lower production.

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Diavik began construction of a wind energy system which will reduce diesel consumption by approximately ten per cent and lower greenhouse gas emissions by approximately six per cent.

### Review of operations for the year

Diamonds & Minerals underlying earnings of US\$252 million were 23 per cent lower than 2010. Excluding the effects of a US\$79 million tax benefit in 2010, underlying earnings were slightly higher than the prior year. The group benefited from higher prices from improved market conditions across all products. This was offset by lower volumes and increased costs, primarily in the diamonds business, due to the transition to underground mining at Argyle and severe weather conditions.

A net impairment charge of US\$344 million after tax was recognised on the diamonds assets to reduce their carrying value to an estimated recoverable amount. This is excluded from underlying earnings.

### Rio Tinto Minerals

Borates are essential nutrients for plants and are used in fertilisers to increase crop yield and quality. They are key ingredients in building materials such as fibreglass, wood preservatives and ceramics; heat-resistant glass used in flat screen TVs and computers.

RTM (100 per cent interest) supplies nearly 40 per cent of the world's refined borates from its world-class deposit in Boron, California. Its operation footprint also includes borate refineries and shipping facilities in China, France, Malaysia, the Netherlands, Spain and the US. RTM completed the divestment of its talc business on 1 August 2011 for an enterprise value of US\$340 million.

Production rose slightly to 504 thousand tonnes boric oxide equivalent up from 500 thousand tonnes in 2010 despite significant rainfall events in the US that curtailed production and led to a declaration of force majeure for sodium borates in the beginning of the year.

RTM achieved a five per cent improvement in refined borates revenues through strong prices, product mix and steady Asian demand growth. Eliminating the effects of the talc divestment and a US\$79 million tax benefit in 2010, revenue and cost improvements increased earnings by 31 per cent in 2011.

### Rio Tinto Iron & Titanium

Titanium dioxide is a white, opaque compound that is an important pigment used in paint, plastics and paper. RTIT is the largest producer of titanium dioxide feedstocks.

RTIT mines ilmenite at its wholly-owned Rio Tinto Fer et Titane (RTFT) operation in Quebec; its managed operation Richards Bay Minerals (RBM) in South Africa (37 per cent interest); and its QIT Madagascar Minerals (QMM) operation (80 per cent interest). RTIT produces high-quality titanium dioxide feedstocks at its world-class metallurgical complexes as well as co-products including high-purity iron, steel, metallic powders, zircon and rutile.

In 2011, titanium dioxide feedstock production (Rio Tinto share) increased by four per cent, despite a furnace rebuild at RTFT, due to strong second half performance at RTFT and production increases at QMM through new dry mining operations and at RBM's new tailings treatment plant.

RTIT grew its revenues by 19 per cent due to price increases for titanium dioxide feedstocks, zircon and metallic co-products, in line with demand growth associated with global urbanisation trends. The impact of improved pricing more than offset increased input costs resulting in a 104 per cent increase in year-on-year earnings. RTIT continued to replace its multi-year sales contracts with alternative pricing mechanisms, increasing the exposure to current market prices.

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## **Table of Contents**

### **Rio Tinto Diamonds**

Rio Tinto is a leading producer of rough diamonds with a product portfolio that provides a presence in all major markets. Rio Tinto's diamond assets currently comprise the Argyle Diamond Mine in Australia (Rio Tinto: 100 per cent), the Diavik Diamond Mine in Canada (60 per cent), Murowa Diamonds in Zimbabwe (78 per cent) and the Bunder diamond project in India (100 per cent). RTD sells its share of production through its centralised marketing office in Belgium. RTD also has a niche cutting and polishing factory in Australia, where it cuts and polishes the high-end pink diamonds from the Argyle mine, and sells them to an international customer base.

RTD produced 11.7 million carats in 2011, a 15 per cent reduction from 2010 that reflected adverse weather conditions, maintenance shutdowns in the processing plant and a transition to underground mining at Argyle. Construction of the underground mine is scheduled to be completed at the end of 2013 and the investment will extend mine life until at least 2019. Three diamond-bearing kimberlite pipes are mined at Diavik using open pit and underground methods. The open pit is expected to be depleted by 2012, but underground operations will extend Diavik's mine life past 2020.

RTD revenue increased by seven per cent reflecting improved market conditions in the US and continued demand growth in China and India. This was more than offset by higher costs and lower production volumes at Argyle and higher depreciation following a 2010 impairment reversal at Diavik, leading to an 86 per cent drop in overall earnings.

### **Growth and innovation**

In 2011, Diamonds & Minerals re-entered the potash business through an exploration joint venture with North Atlantic Potash Inc, a subsidiary of JSC Acron. Acron is a world leader in fertiliser production and holds multiple potash exploration permits in Saskatchewan, Canada, home to about half the world's potash reserves. Drilling has commenced to confirm an economically viable potash resource. Higher nutritional standards, population growth and limited arable land make potash a critical factor in maintaining global food security, and a natural complement to RTM's existing borate fertiliser business.

Development also progressed at the group's Jadar lithium-borate deposit in Serbia. If developed, the deposit has the potential to supply more than 20 per cent of global lithium demand. New investment will fund the collection of bulk ore samples. These will be refined at RTM's pilot processing facilities into boric acid and battery-grade lithium carbonate, and tested in the marketplace. Lithium carbonate's fastest-growing application is in batteries that provide clean power to industrial systems and electric and hybrid cars.

In 2011, RTIT commenced studies to identify, pursue and realise the best opportunities for organic expansions of its titanium dioxide mining and smelting capacity. Demand for titanium dioxide feedstocks is expected to climb significantly and the industry has invested very little in new mine or smelting capacity in the last two decades. RTIT is taking a progressive approach to evaluating and executing its best options for long-term organic growth. To date, US\$63 million has been approved to conduct Order of Magnitude studies.

Rio Tinto Fer et Titane announced its TiO<sub>2050</sub> project in May 2011, a proposed investment of C\$800 million over the next five years to enhance mining and processing operations. Through this investment, mine life will be extended to 2050 and equipment at the operation's metallurgical complex will be upgraded to improve efficiency and environmental performance.

In February 2012, Rio Tinto announced that it would double its stake in RBM to 74 per cent through the acquisition of BHP Billiton's 37 per cent interest.

Pre-feasibility studies are continuing at the Bunder diamonds project in Madhya Pradesh, India. Rio Tinto has received a Letter of Intent to issue a mining lease for the project from the Government of Madhya Pradesh, following approval in principle from the Government of India. This is a critical milestone which allows Rio Tinto to commence a detailed mining plan and progress the environmental approvals required for further development.

In December 2011, a further US\$0.5 billion of capital was approved for the Argyle Underground project. This increase reflected project development delays primarily caused by a record 2010/2011 wet season and adverse exchange rate movements. The underground mine will be complete at the end of 2013, with targeted production of 20 million carats per year when fully operational.

### **Outlook**

Diamonds & Minerals businesses serve a range of different industries, but are linked through their track record of creating and defining new and profitable markets for their products. Following a solid performance in 2011, the outlook continues to be positive across all products as urbanisation and rising standards of living drive higher levels of demand.

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In the borate marketplace, RTM will seek to capture profitable growth in emerging economies and maintain its position in its established markets. Planned supply chain improvements will facilitate speed and flexibility in shifting supply to promising sectors and regions. RTM will focus on increasing refined borate capacity to meet higher than GDP demand growth while achieving world-class safety performance and improving its cost position.

Demand for titanium dioxide feedstock is expected to continue to grow in line with improving global economic conditions, urbanisation and demand growth in emerging markets. This is expected to have a positive impact on prices. RTIT is well placed to benefit from improved market conditions through its marketing strategy and expansion plans.

The medium to long-term fundamentals for the diamond industry are positive and expected to support future price growth. The global mineral reserve base is steadily declining, compounded by limited exploration investment and success, and expected reductions in supply over the medium to longer-term. Demand in India and China is expected to continue to grow, and to represent some 20 per cent of global diamond consumption by 2012 and 40 per cent of global diamond jewellery consumption by 2020. Demand in mature markets is expected to grow in line with GDP.

[riotinto.com](http://riotinto.com) 25

## Table of Contents

### Energy

#### Financial performance

|                      | 2011         | 2010         |
|----------------------|--------------|--------------|
|                      | US\$ million | US\$ million |
| Revenue              | 7,327        | 5,652        |
| Operating cash flow  | 2,019        | 2,463        |
| Underlying earnings  | 1,074        | 1,187        |
| Capital expenditure  | 1,327        | 685          |
| Net operating assets | 8,164        | 3,694        |

#### Strategy

The Energy group is focused on safely supplying the world's growing energy needs through the sustainable development and operation of large-scale, long-life, cost-competitive mines.

It aims to be a sector leader in the development and operation of the world's coal and uranium resources, and to build strong customer relationships while maximising revenues.

The Energy group is pursuing opportunities for growth to meet expanding long-term global energy demand, while continuing to focus on operational excellence, community engagement and environmental performance to ensure it is the developer of first choice.

#### Safety

Regrettably a fatality occurred in the Energy group during 2011 due to a crush incident at Zululand Anthracite Colliery in South Africa, an operation identified for divestment. The group's all injury frequency rate (AIFR) was 0.79 in 2011 as compared with 0.73 in 2010. The Energy group's AIFR increased during 2011, due in part to a rise in the number of incidents involving hand injuries and contractors at RTCA. Programmes have been implemented to address these core areas in 2012. Safety highlights for 2011 included zero recordable injuries at Colowyo up to the point of divestiture of that business on 1 December 2011, and an AIFR of 0.57 at ERA down from 0.71 in 2010. All of Rio Tinto's Energy business units remain focused on achieving the goal of zero harm through optimisation of Rio Tinto safety systems and continued strengthening of safety culture in the workplace.

#### Greenhouse gas emissions

The Energy group is committed to a future where energy is about sustainable practices that will minimise global carbon emissions. Initiatives and projects at each operation are helping to reduce energy use and greenhouse gas (GHG) emissions, and the group continues to dedicate resources to the development of low-emissions coal technology. GHG for the Energy group totalled approximately 4.3 million tonnes of carbon dioxide equivalent in 2011, compared with 4.0 million tonnes in 2010. Rio Tinto Coal Australia completed drilling at New South Wales sites to measure coal seam methane content, and also contributed to the development of an industry methodology to improve estimation of coal seam methane emissions from mining.

#### Review of operations for the year

Rio Tinto's Energy business faced a number of challenges in 2011 – in particular severe wet weather in Australia which constrained supply of uranium and coal, and the Japanese tsunami which impacted demand for uranium.

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

RTCA manages the group's Australian coal interests. These include the Blair Athol (Rio Tinto: 71.2 per cent), Clermont (Rio Tinto: 50.1 per cent), Hail Creek (Rio Tinto: 82 per cent) and Kestrel (Rio Tinto: 80 per cent) coal mines in Queensland. RTCA also provides management services to Coal & Allied Industries (Rio Tinto: 80 per cent) for operation of its four mines located in the Hunter Valley in New South Wales. Coal & Allied wholly owns Hunter Valley Operations, has an 80 per cent interest in Mount Thorley Operations, a 55.6 per cent interest in the contiguous Warkworth mine, and a 40 per cent interest in the Bengalla mine adjacent to its wholly owned Mount Pleasant project. Coal & Allied also has a

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36.5 per cent interest in Port Waratah Coal Services (PWCS) which operates the Kooragang and Carrington coal port terminals in Newcastle.

The group's Australian coal operations were impacted by severe weather events which saw all four Queensland mines declare force majeure in December 2010.

Favourable prices through the first part of 2011 for all coal types have contributed to underlying earnings of US\$1.2 billion, a 32 per cent increase from 2010. Constraints in explosives supplies to New South Wales sites in late 2011 will impact production in the first half of 2012. However, coal production is forecast to increase in 2012. This will be achieved through the realisation of brownfield expansions across all New South Wales operations, the ongoing ramp-up of the Clermont Mine and productivity benefits flowing from the implementation of a significant business improvement programme during 2011. Rio Tinto completed the privatisation of Coal & Allied during 2011, which is now owned 80/20 with Mitsubishi Development. Rio Tinto continues to manage Coal & Allied.

### Energy Resources of Australia (Rio Tinto: 68.39 per cent)

ERA is a publicly listed company. Since 1981 ERA has mined ore and produced uranium oxide at its Ranger open pit mine, 260km east of Darwin in Australia's Northern Territory. ERA also holds title to the adjacent Jabiluka mineral lease. Ranger and Jabiluka are surrounded by, but remain separate from, the World Heritage listed Kakadu National Park. ERA's operations are subject to stringent environmental requirements and governmental oversight.

In 2011, ERA was severely impacted by the third highest wet season on record, which triggered a proactive shutdown of ERA's processing operations from January to June 2011. ERA made an adjustment to its reserves statement in August 2011 following the decision not to proceed with construction of the Ranger heap leach facility project. ERA also raised A\$500 million via an accelerated renounceable entitlement offer to progress strategic projects around exploration and water management.

### Rössing Uranium (Rio Tinto: 68.58 per cent)

Our Rössing Mine is located near the town of Arandis, 70 km inland from the coastal town of Swakopmund in Namibia's Erongo Region. In 2011, the Rössing mine announced a reduction in reserves following an update of the mine design.

A major business improvement diagnostic was completed and execution of a range of initiatives commenced in 2011, with a view to improving reliability and increasing production.

### Rio Tinto Coal Mozambique (Rio Tinto: 100 per cent)

Zambeze Project (100 per cent); Tete East Project (100 per cent); Benga Project (65 per cent); Zululand Anthracite Colliery (74 per cent).

Rio Tinto's acquisition of Riversdale, renamed as Rio Tinto Coal Mozambique, was completed in August 2011. Its first operation, the Benga project, is due to start exports around the end of March.

In this report, the reserves figures for our Mozambique coal assets are published for the first time since Riversdale was acquired by Rio Tinto. The magnitude of the reserves figures is consistent with our original estimates that were calculated during our due diligence studies.

Rio Tinto is planning to divest its stake in the Zululand Anthracite Colliery which was acquired as part of the Riversdale purchase.

### Growth and innovation

Each of the Energy group's coal and uranium operations in Australia and Africa are progressing expansion projects, in either execution or evaluation phase.

Rio Tinto Coal Australia's large, cost-competitive resource base positions us favourably to capture ongoing demand for seaborne thermal and coking coal. Existing growth plans at Australian coal operations are expected to

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## **Table of Contents**

see production increase by around 50 per cent over the coming years to around 73 million tonnes a year in 2015. This includes the Mount Pleasant Project in the Hunter Valley, which is expected to be considered for investment approval during 2012, and the Kestrel Mine Extension project, which is due to be completed in 2013. 2012 will also see an increase in exploration activities and studies to support planning for further options.

The Moatize basin in Mozambique is home to one of the best undeveloped coking coal resources in the world. Rio Tinto has the largest licence holding in that region and owns Tier 1 resources which are long life, will be cost competitive and will have substantial expansion options. Rio Tinto plans to significantly grow these assets and sees this region providing a development opportunity that is long term and will achieve sustainable growth over a 50-year-plus timeframe. Whilst saleable production will initially be constrained by existing rail and port infrastructure, feasibility studies into infrastructure solutions and mine expansions at Benga and the adjacent Zambeze Project are continuing in 2012.

The Ranger 3 Deeps exploration decline was approved in August 2011, with construction commencing in 2012. This will enable ERA to conduct close-spaced underground exploration drilling and explore areas adjacent to the Ranger 3 Deeps mineralisation. ERA will also invest a total of A\$220 million to construct a brine concentrator to reduce process water inventories and underpin our approach to mine closure obligations.

Work is progressing on expansion studies to extend the Rössing mine life beyond 2023. Pre-feasibility work on upgrades to the processing facilities at Rössing is ongoing.

In early 2012, Rio Tinto completed a friendly takeover bid for Canadian uranium exploration company Hathor Exploration. The mineralisation at Hathor is being evaluated. In late 2011 Rio Tinto finalised the sale of Colowyo, its last remaining thermal coal mine in the US, in order to focus on growing energy demand in the Asia region.

## **Outlook**

Increasing prosperity, urbanisation and industrialisation in large developing countries, such as China and India, will continue to drive global demand growth for energy in the coming decades.

Under even the most ambitious climate change policy scenarios, the International Energy Agency (IEA) predicts demand for energy will increase by more than 20 per cent by 2035. Future growth will be dominated by Asia; the IEA forecasts that China alone represents 44 per cent of global energy growth over the period 2008 to 2020.

The Energy group's strategy is to target expanding export markets, particularly in the Asia Pacific region.

While uranium as a source of energy is currently much smaller than coal, it remains significant in the global energy mix, and there are expectations demand will rise in a carbon-constrained future. The 2011 tsunami in Japan and its impact on the Fukushima plant had a negative effect on the short to medium term outlook for uranium. Operations at Japan's nuclear power plants continue to be limited by political action, while Germany reacted by declaring a total phase-out of nuclear energy over the course of the decade. These events are not expected to have a significant effect on the long-term growth in uranium demand. This is primarily due to China's ambitious nuclear programme, of more than 100 new reactors over the next ten years.

Korea, India and the UAE are also building new nuclear power plants, and investment in new capacity continues in the more mature markets of the US and Europe.

For many countries, energy diversification is the key to their energy security. Coal will continue to be an important base load fuel for decades to come, and nuclear energy also provides large-scale energy security with the added benefit of no greenhouse gas emissions. For this reason, Rio Tinto's Energy group continues to be positive about the demand outlook for both coal and uranium.



**Table of Contents**

**Iron Ore**

**Financial performance**

|                      | <b>2011</b>         | 2010         |
|----------------------|---------------------|--------------|
|                      | <b>US\$ million</b> | US\$ million |
| Revenue              | 29,909              | 24,024       |
| Operating cash flow  | 21,486              | 15,976       |
| Underlying earnings  | 12,853              | 10,189       |
| Capital expenditure  | 4,757               | 1,716        |
| Net operating assets | 13,368              | 11,628       |

**Strategy**

The Iron Ore group's strategy is to:

Create shareholder value by maximising the return from existing assets and building value through expansions and greenfield developments.

Maintain close control of capital and operating costs to protect margins, with particular emphasis on improving unit costs as the business expands rapidly.

Implement major expansion programmes while maintaining at-nameplate capacity production.

Continue to develop and benefit from technology and innovation to deliver supply chain efficiencies, reducing costs and maximising underlying profit.

Capitalise on its position as the leading iron ore supplier close to the world's largest, fastest-growing markets.

Achieve a portfolio of alternative contract methodologies across different markets and customer segments in order to ensure full off-take and maximise revenue in an increasingly segmented market.

**Safety**

Safety performance in 2011 was tragically marred by three fatalities, including two fatalities at the Group's Pilbara operations, the first such events in eight years. In April, a subcontractor was fatally electrocuted at the Iron Ore Company of Canada's (IOC) Labrador City facility during the commissioning of a new overhead power line. IOC is committed to improving safety performance and achieving a zero-harm safety culture across all its operations.

In June a man working on scaffolding on East Intercourse Island jetty at Dampier died when the scaffolding collapsed into the water, and in August a man died carrying out maintenance on a front-end loader in the workshop at Brockman 2 mine, 60 kilometres from Tom Price in the Pilbara region.

In addition to the specific investigations into each incident, the fatalities led to an independent safety diagnostic assessment to examine all aspects of the Western Australian business's workplace practices and cultural factors that may have impacted on safety performance. That review was finalised in November and its recommendations will be implemented with the highest priority.

Separate to the fatalities, overall safety performance was assisted by increased tracking of indicators such as near-miss incidents. Emphasis on improved lifestyle as a health and safety factor, such as improved diet and better management of fatigue, was also accelerated during the year. In 2011 the Iron Ore group's all injury

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frequency rate (AIFR) was 0.63, compared with 0.71 in 2010.

### Greenhouse gas emissions

The focus was maintained on achieving greater fuel and energy efficiencies, highlighted by a US\$833 million investment in improved power and gas projects, and in operational decisions such as the planned deployment of more than 150 of the more efficient Autonomous Haulage System (AHS) driverless trucks across the Pilbara region. Within Expansion Projects an energy and greenhouse gas (GHG) assessment tool was developed to assist with monitoring and evaluation of projects. All requirements for the National Greenhouse & Energy Reporting System and the Energy Efficiency Opportunities Act were met.

IOC has undertaken a major study on air pollution abatement for its Labrador City facility – the Air Quality Improvement Program (AQIP). This involves monitoring, stack testing, modelling, analysing and engineering solutions to mitigate when necessary our environmental effects in the communities where we work and live. The Iron Ore group's total GHG emission intensity has improved 7.8 per cent since 2008.

### Review of operations for the year

Iron Ore achieved a record performance in 2011, meeting ambitious production targets of more than 240 million tonnes despite a very challenging first half of the year, when difficult weather conditions significantly impacted operating performance.

A volatile iron ore market produced first major increases and then decreases in spot prices, as well as forcing significant structural changes to the way iron ore as a commodity is marketed and sold. As the bulk of Rio Tinto's supply contracts were linked to that spot price, volatility fed through to revenues.

Overall the strong result reflected the fact that the global economy continued its slow recovery from the global financial crisis, notwithstanding the continued instability in the eurozone. The positive result highlighted Rio Tinto's significant exposure to China and the better performing East Asian economies.

Weather-related incidents severely affected operations into the second quarter of the year. Tropical cyclones and associated widespread flooding led to a derailment and the suspension of all deliveries from mines to Dampier port for nine days. System efficiency was impaired for months after restoration. The effects of poor weather were mitigated by the Operations Centre's success in optimising throughput.

Production, rail and shipping in the second half of the year was greatly improved, with the system able to operate consistently at above-nameplate capacity.

In February 2011, Rio Tinto approved a US\$933 million investment in the Marandoo Mine in the Pilbara, extending its current capacity of 15 million tonnes a year until 2030. Key cost initiatives over the year included extracting increased synergies from improved contractor utilisation and management, improved management of component overhauls and refinements to maintenance plans, optimisation of mine plans, and benefits from improvements in asset health through condition monitoring and application of relevant technologies.

The multi-staged expansion of Pilbara operational capacity proceeded on schedule. Debottlenecking of the Parker Point circuit at Dampier port increased annual capacity to 225 million tonnes, and this will rise to 230 million tonnes in early 2012.

The major expansion programme at Cape Lambert port was accelerated during the year, following the approval in June of a US\$676 million investment to fund early works and procurement. As a result, capacity expansion in the Pilbara to 353 million tonnes a year is scheduled to be reached in the first half of 2015, six months earlier than planned. Advancing the earlier engineering work can be achieved without increasing the overall cost of the expansion programme.

In November Rio Tinto confirmed it would add a further 20 million tonnes capacity to this target by replacing the original car dumper at Cape Lambert. This would align the in-load annual capacity at the port up to the existing 100 million tonne outload potential of the jetty. Due for final approval in 2012, it would bring overall system capacity to 353 million tonnes in the first half of 2015.

Supporting the expansion, in September an investment of US\$310 million was approved to assure a sustainable water supply for the Pilbara operations. Rio Tinto also approved an investment of US\$833 million (Rio Tinto share US\$706 million) in major power and fuel supply projects.

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## **Table of Contents**

In addition to the major capital works approved or planned, a number of regulatory and administrative arrangements were resolved including those relating to rail and port operations, land tenure and union agreements.

In a very challenging recruitment market, the Iron Ore group adopted innovative methods to augment its workforce beyond the current total of approximately 11,000. Flexible talent recruitment and retention strategies were developed to allow more lifestyle arrangements for those living in or commuting to the Pilbara and elsewhere. The Iron Ore group reconfigured its apprenticeship arrangements to improve recruitment and a new training centre was opened in Perth mid-year to handle the huge increase in apprentices and trainees expected to enter the Pilbara iron ore industry over the next decade.

In Canada, IOC experienced a challenging first quarter attributable to poor weather conditions, low mobile equipment availability and major repairs which impacted production. However, performance improved significantly over the remainder of the year, reinstating capacity. Also, in the second half of the year, production flexibility enabled IOC to capture higher concentrate spot sales by reducing pellet production in favour of higher concentrate production.

Rio Tinto's deployment of a global production platform continued.

IOC's Concentrate Expansion Project (CEP) made good progress and remains on track for completion by 2013, when annual capacity will be 26 million tonnes. The third and final stage of the CEP is in its final study phase. In August IOC announced preliminary studies to increase annual production capacity to 50 million tonnes from 2016, as well as consider the pathway for further expansions beyond this capacity, capitalising on the significant reserve base. The integrated study will consider multiple alternatives for the expansion, which may include new concentrators, mining pits and related mine, rail, stock handling, and port infrastructure.

In April the proposed development of the Simandou iron ore mining project was endorsed with a new Settlement Agreement with the Government of Guinea, confirming Rio Tinto's tenure. Rio Tinto paid US\$700 million to resolve all outstanding issues with the Government, which will be able to take up to 35 per cent equity in the project.

Rio Tinto is working with the Government of Guinea to have relevant provisions of the Settlement Agreement ratified as law, as contemplated and required by the Settlement Agreement.

In October Rio Tinto approved the investment of US\$1.1 billion of funding for commitments for early works and procurement of long-lead items and a further US\$211 million for additional studies. This funding will allow the project to move forward towards first shipment of ore by mid-2015, as set out in the Settlement Agreement. Work progressed through 2011 on finalising the required regulatory approvals with project venture partner Chalco, and finalising of the infrastructure investment framework.

The closure phase for the HIs melt plant at Kwinana, south of Perth, was being finalised at year's end. The HIs melt technology business continued to progress, with an agreement signed in August with the India-based Jindal Group to incorporate the HIs melt process in its steel-making plant.

Dampier Salt's various operations were significantly impacted by cyclones and rain during the first half of the year, with record rainfall challenging salt production and requiring significant risk management. Despite the conditions, Dampier Salt achieved record annual sales with deliveries of 10.3 million tonnes of salt into the Asian and European markets. In October the business achieved record monthly sales of 1.3 million tonnes shipped.

### **Growth and innovation**

The Pilbara 353 million tonne capacity expansion and the Iron Ore Company of Canada CEP projects are the principal drivers of organic growth. Progressing the Simandou project towards its 2015 production commitment is the key greenfield expansion focus. The Pilbara programme is on track to deliver an additional 133 million tonnes of annual capacity by 2015. All individual projects required to deliver the interim target of 283 million tonnes capacity have been approved. Work has commenced at Cape Lambert port, rail infrastructure and mines (Brockman 4 Phase II and Western Turner Syncline). The US\$2.2 billion extension of the Nammuldi mine expansion was approved in February 2012.

Mine options for the next 50 million tonne phase include a further expansion of Nammuldi and Brockman 4, and the development of the greenfield Koodaideri deposit. Studies are all well under way. All mines in the expansion programme adhere to the defined strategy of being close to existing infrastructure and fully Rio Tinto-owned. There are multiple port expansion options beyond the current programme under preliminary study. The proposed new car dumper at Cape Lambert would boost capacity to 353 million tonnes.

Introduction of innovative technology to the group's Pilbara operations through the Mine of the Future programme has also been a key feature in 2011. The two-year trial at the West Angelas mine of the Autonomous Haulage System (AHS) proved successful and as a result a significant proportion of the Yandicoogina mine will now be converted to fully autonomous operation. In November a memorandum of understanding with Komatsu (subject to binding terms of supply being negotiated) was concluded for the supply of at least 150 AHS haul trucks to be used in the Pilbara inland mining operations. Progress is also being made

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towards gaining innovative efficiencies in the group's ports and rail divisions, including the deployment of a driver-assist system in rail operations and vacuum moorings at ports. In February 2012 a US\$518 million investment was approved to introduce the AutoHaul driverless trains on the Pilbara network from 2014.

### Rio Tinto Marine

In 2011 freight volumes increased slightly to 164 Mt of dry bulk cargo. The freight market exhibited high volatility over the year with average levels reflecting the current oversupply of new vessels, particularly in the Capesize segment. Rio Tinto Marine continues to support Rio Tinto businesses in providing competitive freight solutions in markets that are increasingly moving to shorter-term, CFR index prices. Safety performance continued to show general improvement. Marine has 15 vessels on order at shipyards in Asia and these are on schedule for delivery between 2012 and 2014 to meet specific trade requirements, enhancing Rio Tinto Marine's portfolio of long-term, low-cost freight. The existing fleet of five post-Panamax bauxite carriers continue to provide competitive and reliable delivery of bauxite from Weipa to refineries at Gladstone.

### Outlook

The iron ore market outlook remains strong overall and positive, though significant volatility will continue to reflect macro-economic instability in major economies.

The Iron Ore group continued to ship at full capacity through the second half of the year, notwithstanding the eurozone challenges and softening in steel markets.

There remains great confidence in the long-term fundamentals of major markets, particularly in China, and the significant expansion programmes in the Pilbara and Guinea are based on that premise. Global supply has struggled to keep pace with increased demand, which reinforces Rio Tinto's growth strategy. Challenges will come from higher input prices, particularly increased manning, and a stronger Australian dollar. Developing high-productivity mines and adopting step-change technologies will help offset rising operational and higher native title costs.

## **Table of Contents**

### **Business Support & Operations**

#### **Exploration**

The Group has had a sustained commitment to exploration since 1946 and considers exploration to be one of its core competencies. A fundamental element of the Group's business strategy is a focus on finding and mining only the largest, lowest-cost resources that are profitable at all parts of the commodity cycle. We refer to these as Tier 1 resources. Mature Group operations, such as Weipa, the Pilbara and Rössing, were Tier 1 greenfield discoveries by Rio Tinto. The value of these discoveries is still being realised after more than 40 years of mine production.

The Exploration group is accountable for greenfield exploration programmes, provides technical assistance to business units on brownfield exploration, and supports business development groups in the evaluation of merger and acquisition opportunities. Greenfield exploration aims to establish completely new operating business units, involving geographic or commodity diversification away from existing Group operations. Brownfield exploration is directed at sustaining or growing existing Group businesses.

The evolution of a project from target generation to investment approval, implementation and commissioning involves a series of study stages that aim to deliver a progressive increase in confidence in the technical and economic parameters of the project. These exploration and evaluation studies can take ten to 20 years, with sustainable development criteria applied throughout the project development cycle.

Target generation and testing involves the progression of a project from concept to demonstration of mineralisation and declaration as A Project of Merit. Where mineralisation is identified through drilling to be of a grade and quantity sufficient to be of economic interest to the relevant Rio Tinto product group, projects are progressed to Order of Magnitude Study. This involves an assessment of a range of options to establish economic viability of the project, and determine whether its potential value is sufficient to justify committing significant resources to detailed evaluation. A successful Order of Magnitude Study results in the declaration of a discovery, and the transfer of project management accountability to the relevant Rio Tinto product group.

The following table shows the Exploration group's Tier 1 discoveries since 2001:

| Year | Discovery   | Commodity       | Location   |
|------|-------------|-----------------|------------|
| 2002 | Resolution  | Copper          | US         |
| 2004 | Simandou    | Iron ore        | Guinea     |
| 2005 | La Granja   | Copper          | Peru       |
| 2005 | Caliwingina | Iron ore        | Australia  |
| 2008 | Sulawesi    | Nickel          | Indonesia  |
| 2008 | Mutamba     | Titanium        | Mozambique |
| 2009 | Jadar       | Lithium/Borates | Serbia     |

At the end of 2011, the Exploration group was actively exploring in 18 countries, and assessing opportunities in a further six countries, for a broad range of commodities including bauxite, copper, coking coal, diamonds, iron ore, nickel, potash and uranium.

#### **Strategy**

The purpose of Exploration is to add value to the Group by discovering or acquiring resources that can increase future cash flows. Exploration programmes are prioritised on a global basis so that only the most attractive opportunities are pursued. Priorities are determined in consultation with the product groups, with investment decisions being driven not by location or choice of commodity but rather by the quality of each opportunity.

The Exploration group is organised geographically into regional multi-commodity teams, with head offices in London, Salt Lake City and Brisbane. This structure provides a balance of global reach and local presence.

Exploration teams frequently present the first face of Rio Tinto in a community and lay the groundwork for what could become a multi-decade relationship. We place a high priority on effective community engagement

and consider our commitment to sustainable development as fundamental to securing our social licence to operate.

#### **Safety**

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The Exploration group's all injury frequency rate has deteriorated from 1.18 at the end of 2010 to 1.52 at the end of 2011. Access to experienced employees and contractors remains a challenge in light of rapid expansion across the industry. The Exploration group continues to focus on implementing critical controls around high-risk activities such as aviation, drilling, vehicles and driving.

### Performance

An Order of Magnitude project at Amargosa in Brazil delivered the Tier 1 bauxite deposit to Rio Tinto Alcan for pre-feasibility study. Ongoing exploration in the Amargosa orbit identified multiple bauxite occurrences for resource definition in 2012.

Drilling in the Orientale Province of the Democratic Republic of Congo, in joint venture with Delrand Resources and Kilo Goldmines, returned intersections of high-grade iron ore at Mount Asonga and Zatua.

An option to joint venture was entered into with North Atlantic Potash Inc., a subsidiary of JSC Acron, to explore for potash on nine permitted areas in Saskatchewan, Canada. A Project of Merit has been initiated based on initial drill results.

In the brownfield environment, Exploration handed over the Bourne Highway project in the Pilbara, Australia, to Rio Tinto's Iron Ore group. Drill testing of targets in the orbit of Iron Ore Company of Canada operations returned multiple mineralised intercepts for assessment in 2012. In Mozambique, exploration commenced on licences acquired under the Riversdale acquisition and adjacent tenement secured under option agreement. Order of Magnitude studies were initiated at Lake Elphinstone, Mount Robert and Valeria in the Bowen Basin, Australia. On the Rössing mine lease in Namibia, evaluation of the Z20 prospect continued.

The Altai Nuurs coking coal deposit in Mongolia and the Sari Gunay gold deposit in Iran were divested. Exploration projects in Jordan and Guyana were terminated due to poor results.

Several test flight programmes of the VK1 airborne gravity gradiometer were conducted in Western Australia throughout the year, including the first flights of a second improved system. Production flying is anticipated in 2012.

Gross cash expenditure on exploration and evaluation in 2011 was US\$1,437 million, representing a US\$843 million increase over 2010 gross expenditure of US\$594 million (due to ramp-up of evaluation project activities). Gross expenditure was offset by US\$89 million (pre-tax) proceeds from divestment of Tier 2 exploration assets.

### Outlook

The Exploration group will explore for a range of commodities across at least 18 countries in 2012. Early stage target generation will be a key enabler of sustained exploration success. The next crop of potential discoveries includes:

| Project             | Commodity | Country                         | Stage            |
|---------------------|-----------|---------------------------------|------------------|
| Amargosa Orbit      | Bauxite   | Brazil                          | Project of Merit |
| Saskatchewan Potash | Potash    | Canada                          | Project of Merit |
| Bafwasende          | Iron ore  | Democratic<br>Republic of Congo | Project of Merit |

### Other Business Support & Operations

In addition to Exploration, the following parts of the Group are included in Business Support & Operations: Business Evaluation; Corporate Assurance; Economics & Markets; Group Risk; Global Business Services; Rio Tinto Japan; Rio Tinto Singapore Holdings; Cable; Pacific Aluminium and Other Aluminium (Sebree and Lynemouth aluminium operations, three specialty alumina plants and the Gardanne refinery).

## **Table of Contents**

### **Technology & Innovation**

Technology & Innovation (T&I) consists of a central team of technology professionals and centres. These develop leading practice and promote improvements in technology, mining, processing, asset management, strategic production planning, and project development, execution and evaluation. Emphasis is given to shared and visible measures of operational effectiveness, the improvement of analytical tools, development of staff capabilities, and implementation of technology step changes that will confer competitive advantage in development of orebodies likely to be available to the Group in the future.

The total number of employees in T&I increased from 538 at year end 2010 to 925 at year end 2011 primarily due to an increase of demand for the design and build of major projects on behalf of the Group's business units.

The T&I gross cost in 2011 was US\$343 million, compared with US\$213 million in 2010 and US\$134 million in 2009.

#### **Strategy**

T&I's strategy is to:

Maintain and promote a safe working environment.

Continue to embed operational excellence in business units.

Maximise the contribution of technology to the Group's vision of industry leadership.

Deploy technology solutions that increase earnings.

Design and build valuable, new growth projects.

Position the Group to unlock orebodies that require innovative solutions.

#### **Safety**

T&I is committed to the safe operation of its facilities and to the safe deployment of its personnel. The all injury frequency rate for T&I and projects in 2011 is 2.57 compared with 1.54 in 2010, driven largely by poor performance at the Argyle Diamond underground project.

An extensive range of actions is being taken to correct this poor performance including changes to and strengthening of the project leadership team, increased oversight of safety performance and application of Rio Tinto's Site Safety Acceleration Process.

#### **Performance**

#### **Innovation**

Innovation is the research and development group within T&I. Its focus is on developing radically new and innovative technologies that can address the significant challenges facing the mining industry. With unprecedented global demand for natural resources, a move from mature open pit orebodies to deeper underground mining with more complex mineralisation, tightening environmental and energy constraints, these challenges are significant.

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The wealth of technical and project expertise is leveraged through a network of key partnerships with organisations and institutions around the world. The work is protected by an intense focus on competitive advantage.

Examples of initiatives and programmes:

The Mine of the Future programme; the interlinking of a number of initiatives that will deliver improvements in productivity, cost, product quality and safety.

Technologies to support the safe, rapid development of large underground block cave mines.

In situ orebody knowledge to guide the mining and processing of an ore block.

The development and deployment of autonomous blast hole drilling technologies.

Ore recovery through significant advancements in mineral recovery and sorting technologies.

Innovative research into technologies to reduce Rio Tinto's carbon footprint.

During 2011 a number of projects continued on target, or were accelerated, to deliver significant value to Rio Tinto through technological advancement.

### Mineral Technology Services

The Mineral Technology Services Centre comprises a team of professionals deployed from seven regional offices in North America, Australia, the UK, and South Africa. The team works with operating sites to deliver substantial increases in value; with project teams to determine the optimum value-adding project plan; and with the broader Group to understand and manage major technical risks. The team provides support in the areas of geology, geotechnics, mining, mineral processing, hydrometallurgy, process control, asset management, environment and business analysis.

The Improving Performance Together (IPT) engagements continue to work with operating sites on operating improvements.

The Centre is responsible for implementing IPT processing, a methodology designed to increase the value delivered by Rio Tinto's processing operations. IPT processing includes focused data analysis to understand and address the constraints and variability which inhibit process performance.

### Asset Management

The Asset Management Centre focuses on the effective selection and deployment of the Group's equipment for mining and processing. Work includes improvements in the reliability and performance of these physical assets, utilising asset management standards and guidelines, as well as standard business processes and fit-for-purpose technical operating systems, work practices, training and global metrics to monitor the performance of fixed plant and heavy mobile equipment.

### Mining Technology

The focus of the Mining Technology Centre is to establish leading practice and develop, share and implement Group-wide solutions in the core mining production processes of surface mining, strategic resource development, underground mining, orebody knowledge, geotechnical and mine planning. The Centre also oversees the Group's reserves estimation and reporting process, reserves audit process and core technical systems.

IPT mining initiatives in 2011 included payload management, load and haul improvement, drill and blast and off-road tyre demand reduction.

The Mining Technology Centre also includes a Strategic Production Planning (SPP) team, which focuses on developing and establishing leading practice. SPP teams co-operate with business units to develop comprehensive plans and valuations of strategic resource development options. Results from SPP provide a logical resource development framework for more detailed studies and investment decision making. SPP engagements completed during the year increased the life of mine valuation of a number of existing mining businesses and supported expansion-based investment proposals.

### Project Development & Implementation

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The Project Development & Implementation Centre (PDI) provides guidance, support and training for all aspects of capital projects, performs a governance function by conducting project reviews, manages feasibility studies, and executes capital projects on behalf of the business units. During 2011, PDI continued the implementation of a global operating model in preparation for implementation of projects in nearly all continents and on behalf of most product groups. The model provides for a Project Management support function as well as Implementation Hubs focused on supporting the product groups.

### Technical Evaluation Group

The Technical Evaluation Group (TEG) ensures that Rio Tinto's investment decisions are based on independent, technical review and evaluation. TEG also provides advice on the adequacy of risk identification and management at key points in the project approvals process.

**Table of Contents**

**Financial review**

**2011 financial performance compared with 2010**

In order to provide additional insight into the performance of its business, Rio Tinto reports underlying earnings.

2011 underlying earnings of US\$15,549 million and net earnings of US\$5,826 million were US\$1,562 million above and US\$8,412 million below the comparable measures for 2010. The principal factors explaining the movements are set out in the table below.

|   |         | Underlying<br>earnings | (<br>Restated <sup>a)</sup><br>net<br>earnings<br>US\$m |
|---|---------|------------------------|---|
| Changes from 2010 to 2011               | US\$m   | US\$m                  | US\$m   |
| <b>2010</b>                             |         | <b>13,987</b>          | <b>14,238</b>   |
| Prices                                  | 6,675   |                        |   |
| Exchange rates                          | (998)   |                        |   |
| Volumes                                 | (502)   |                        |   |
| General inflation                       | (376)   |                        |   |
| Energy                                  | (249)   |                        |   |
| Other cash costs                        | (2,096) |                        |   |
| Exploration and evaluation              |         |                        |   |
| costs (including                        |         |                        |   |
| disposals of                            |         |                        |   |
| undeveloped properties)                 | (796)   |                        |   |
| Non cash/interest/tax/other             | (96)    |                        |   |
| Total changes in underlying             |         |                        |   |
| earnings <sup>(b)</sup>                 |         | 1,562                  | 1,562   |
| Increase in impairment                  |         |                        |   |
| charges                                 |         |                        | (8,551)   |
| Absence of gain on consolidation of Oyu |         |                        |   |
| Tolgoi LLC                              |         |                        | (445)   |
| Lower profits on disposal of            |         |                        |   |
| interests in businesses                 |         |                        | (7)   |
| Lower loss after tax from               |         |                        |   |
| discontinued operations                 |         |                        | 87  |
| Deferred tax asset write off            |         |                        | (342)   |
| Movements in exchange                   |         |                        |   |
| differences and gain on                 |         |                        |   |
| derivatives                             |         |                        | (486)   |
| Other movements                         |         |                        | (230)   |
| <b>2011</b>                             |         | <b>15,549</b>          | <b>5,826</b>  |

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(a) The financial statements for the year ended 31 December 2010 have been restated in accordance with IFRS 3 Business Combinations (Revised), following reclassification of certain balances relating to the Consolidation of Oyu Tolgoi LLC.

(b) See note 2 on page 154 of the 2011 financial statements for a reconciliation of underlying earnings to net earnings.

### Prices

The effect of price movements on all major commodities in 2011 was to increase underlying earnings by US\$6,675 million compared with 2010. Prices improved for nearly all of Rio Tinto's major commodities: copper prices were up 18 per cent and gold prices were up 29 per cent. Although aluminium prices averaged ten per cent higher than 2010 they fell back sharply in the last quarter of the year. Spot iron ore prices traded 15 per cent above 2010 levels but ended the year 25 per cent below where they started given price weakness in the fourth quarter driven by Chinese destocking.

Commodity prices and other drivers of sales revenue of individual product groups are discussed further in the section on pages 34 to 36.

### Exchange rates

There was significant movement in the US dollar in 2011 relative to the currencies in which Rio Tinto incurs the majority of its costs. Compared with 2010, on average, the US dollar weakened by 12 per cent against the Australian dollar and by four per cent against the Canadian dollar. The effect of all currency movements was to decrease underlying earnings relative to 2010 by US\$998 million.

### Volumes

Lower volumes were primarily driven by lower copper and gold grades at Kennecott Utah Copper, Escondida and Grasberg. This was partly offset by higher iron ore volumes in line with the Group's increased capacity at its Pilbara ports, despite the adverse weather conditions in the first half of the year. The net impact of volume movements was a decrease in underlying earnings of US\$502 million relative to 2010.

### Energy, other cash costs and exploration

Higher energy costs across the Group reduced underlying earnings by US\$249 million compared with 2010. 2011 was impacted by the higher fuel, diesel and power rates affecting most operations. In 2010 the Aluminium operations in the Saguenay were impacted by low snow and rainfall leading to low power generation and the need to purchase additional power from the provincial utility.

Higher other cash costs during 2011 decreased underlying earnings by US\$2,096 million compared with 2010 due to a combination of higher input prices, fixed production cost inefficiencies associated with lower volumes due to weather events and grade, higher maintenance costs and costs associated with operational readiness.

Rising raw material and input prices decreased underlying earnings by US\$514 million compared with 2010, particularly relating to higher coke, pitch and caustic prices in the aluminium businesses. In addition, underlying earnings were impacted by unit cost increases due to lower volumes caused by severe weather conditions (US\$261 million) and lower grades (US\$445 million), notably in the copper business. Additional costs of US\$546 million were associated with a full year of operations at new mines and operational readiness preparations particularly in the Pilbara and Coal Australia. Other production and one-off costs lowered earnings by a further US\$330 million.

In 2011, evaluation work progressed at many of the Group's projects including the Resolution and La Granja copper projects and the Simandou iron ore project. Two undeveloped coal properties were divested in 2010 resulting in a US\$229 million gain on disposal. The impact from higher exploration and evaluation expenditure combined with lower gains realised from divestments was to lower underlying earnings by US\$796 million compared with 2010.

### Finance costs, tax, other

The effective corporate income tax rate on underlying earnings, excluding equity accounted units, was 30.0 per cent compared with 27.9 per cent in 2010. The effective corporate income tax rate on net earnings, excluding equity accounted units was 49.1 per cent compared with 27.3 per cent in 2010. The increase was due to the goodwill impairment charge being non-deductible for tax purposes.

Group net finance charges were US\$245 million lower than in 2010, mainly reflecting an increase in capitalised interest in 2011.

### 2010 financial performance compared with 2009

2010 underlying earnings of US\$13,987 million and restated net earnings of US\$14,238 million were US\$7,689 million above and US\$9,366 million above the comparable measures for 2009. The principal factors explaining the movements are set out in the table on page 33.

32 [Rio Tinto 2011 Annual report](#)

**Table of Contents**

|  | US\$m   | Underlying earnings US\$m | Restated net earnings US\$m |
|--|---------|---------------------------|-----------------------------|
| Changes from 2009 to 2010  |         |                           |                             |
| <b>2009</b>  |         | <b>6,298</b>              | <b>4,872</b>                |
| Prices   | 9,505   |                           |                             |
| Exchange rates   | (1,171) |                           |                             |
| Volumes  | 782     |                           |                             |
| General inflation  | (253)   |                           |                             |
| Energy   | (232)   |                           |                             |
| Other cash costs   | (445)   |                           |                             |
| Exploration and evaluation costs (including disposals of undeveloped properties) | (690)   |                           |                             |
| Non cash/interest/tax/other  | 193     |                           |                             |
|  |         | 7,689                     | 7,689                       |
| Gain on consolidation of Oyu Tolgoi LLC  |         |                           | 445                         |
| Profits less losses on disposal of interests in business                         |         |                           | (325)                       |
| Net impairment charges   |         |                           | 716                         |
| Exchange differences and derivatives   |         |                           | 401                         |
| Chinalco break fee   |         |                           | 182                         |
| Restructuring/severance costs from global headcount reduction                    |         |                           | 231                         |
| Other  |         |                           | 27                          |
| <b>2010</b>  |         | <b>13,987</b>             | <b>14,238</b>               |

(a) See note 2 on page 152 of the 2011 financial statements for a reconciliation of underlying earnings to net earnings.

**Prices**

The effect of price movements on all major commodities in 2010 was to increase underlying earnings by US\$9,505 million compared with 2009. Average annual prices improved for nearly all of Rio Tinto's major commodities: copper prices were up 47 per cent, molybdenum prices were up 45 per cent, gold prices were up 26 per cent and aluminium prices were 31 per cent higher than 2009. Demand and prices for diamonds and minerals improved significantly as the worldwide economy emerged from the global financial recession.

**Exchange rates**

There was significant movement in the US dollar in 2010 relative to the currencies in which Rio Tinto incurs the majority of its costs. Compared with 2009, on average, the US dollar weakened by 16 per cent against the Australian dollar and by ten per cent against the Canadian dollar. The effect of all currency movements was to decrease underlying earnings relative to 2009 by US\$1,171 million.

**Volumes**

Higher sales volumes were primarily generated from the expanded iron ore operations in the Pilbara region of Western Australia running at above nameplate capacity and an increased proportion of higher-margin pellet sales at IOC. The Aluminium business benefited from higher sales of value-added aluminium products. Increased volumes of hard coking coal following new investment in heavy mobile equipment at the Queensland mines, higher volumes of refined gold and molybdenum at Kennecott Utah Copper and a significant recovery in diamonds and minerals market demand also contributed to the positive variance. These increases offset lower copper and gold volumes at Grasberg which were impacted by lower ore grades and lower mill throughput. The overall impact of volume movements was an increase in underlying earnings of US\$782 million relative to 2009.

**Energy, other cash costs and exploration**

Higher energy costs across the Group, in particular for the Aluminium business, reduced underlying earnings by US\$232 million. This primarily reflected low snow and rainfall levels in the Saguenay-Lac-Saint-Jean region of Quebec during the first half of 2010 which led to reduced power generation, resulting in the need to purchase additional power under a specially negotiated power block from the provincial utility over a 12 month period.

Higher other cash costs during 2010 decreased underlying earnings by US\$445 million compared with 2009. Higher unit cash costs in the Copper group were the result of the planned smelter shutdown at Kennecott Utah Copper and lower copper production following lower grades at most of the operations. Adverse weather conditions and higher stripping rates impacted costs at the Energy group. These were partly offset by lower costs in the Aluminium business, which benefited from

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lower prices for caustic, pitch and coke.

In 2010, evaluation work accelerated at many of the Group's projects including the Resolution and La Granja copper projects and the Simandou iron ore project. Two undeveloped coal properties were divested in 2010 resulting in a US\$229 million gain on disposal, compared with a gain of US\$797 million in 2009 from the disposal of two undeveloped potash properties. The impact from higher exploration and evaluation expenditure combined with lower gains realised from divestments was to lower underlying earnings by US\$690 million compared with 2009.

### Finance costs, tax, other

The effective corporate income tax rate on underlying earnings, excluding equity accounted units, was 27.9 per cent compared with 24.8 per cent in 2009. The effective corporate income tax rate on net earnings excluding equity accounted units was 27.3 per cent compared with 29.3 per cent in 2009. A significant proportion of the increase related to the one-off non-taxable profit on disposal of the potash assets which was recognised in 2009. The Group's net finance charge was US\$110 million lower than in 2009, mainly reflecting lower debt in 2010 following completion of the rights issues and divestments.

### Exclusions from underlying earnings 2009-2011

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 discussion of year on year results below.

|   | 2011<br>US\$m | Restated<br>2010<br>US\$m | 2009<br>US\$m |
|---|---------------|---------------------------|---------------|
| Impairment charges net of reversal                            | (9,290)       | (739)                     | (1,103)       |
| Profits on disposal of interests in businesses                | 167           | 174                       | 499           |
| Gain on consolidation of<br>Oyu Tolgoi LLC                    |               | 445                       |               |
| Loss after tax from discontinued operations                   | (10)          | (97)                      | (449)         |
| Exchange differences and gains/(losses) on derivatives        | (57)          | 429                       | 28            |
| Deferred tax asset write off                                  | (342)         |                           |               |
| Chinalco break fee  |               |                           | (182)         |
| Restructuring/severance costs from global headcount reduction |               |                           | (231)         |
| Other exclusions  | (191)         | 39                        | 12            |
| Total excluded in arriving at underlying earnings             | (9,723)       | 251                       | (1,426)       |

### 2011

An impairment charge of US\$9,290 million was recognised in 2011, of which US\$8,855 million related to the Group's aluminium businesses. The valuation of Rio Tinto's aluminium businesses for impairment testing is based on our assessment of fair market value less costs to sell (FVLCS) derived from discounted future cash flows. In the current market environment, costs are substantially higher due to continued strength in the Australian and Canadian dollars against the US dollar and an increase in input prices. These factors, combined with rising LME inventory, are delaying the aluminium industry's investment in growth projects for new capacity. Under these conditions, FVLCS does not include the full value of our planned improvements in cash margins from existing operations and from the successful implementation of our growth projects. The impairment was therefore largely a result of the current economic

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## **Table of Contents**

### **Financial review continued**

environment and related market volatility in aluminium prices in the second half of 2011 leading to declines in market values for aluminium assets.

In addition, there were net impairments of US\$344 million relating to the Group's diamond business and US\$91 million in other net impairments. The impairment to the Group's diamond business was caused by a change in assumptions about future capital costs required to complete the Argyle underground project. This was partly offset by a recovery in prices, which resulted in a reversal of impairment at Diavik of US\$112 million.

Profits on the disposal of businesses in 2011 related principally to the sale of the Group's talc business and Colowyo mine.

The deferred tax asset write-off in 2011 of US\$342 million followed a change in French legislation which restricted the utilisation of tax losses.

### **2010**

Rio Tinto consolidated Oyu Tolgoi LLC on 15 December 2010 following the signing of a new agreement with Ivanhoe Mines. The US\$445 million gain arising on consolidation represents the excess of the fair value ascribed to the Group's indirect share of the assets and liabilities of Oyu Tolgoi LLC over the historic cost of acquiring that share through its investment in Ivanhoe Mines.

The 2010 impairment charge of US\$739 million related mainly to the Alcan Engineered Products businesses. The Group completed the divestment of 61 per cent of Alcan Engineered Products to Apollo Global Management, LLC and the Fonds Stratégique d'Investissement on 4 January 2011.

Profits on the disposal of businesses in 2010 relate primarily to the sale of the Group's remaining 48 per cent interest in Cloud Peak Energy Inc.

Loss after tax from discontinued operations of US\$97 million (inclusive of divestment costs) related to the completion of the disposal of Alcan Packaging global Pharmaceuticals, global Tobacco, Food Europe and Food Asia divisions to Amcor on 1 February 2010, and the Alcan Packaging Food Americas division to Bemis Company Inc. on 1 March 2010.

### **2009**

In 2009, the Group completed the divestments of its interests in the Ningxia aluminium smelter, the Corumbá iron ore operation, the Jacobs Ranch coal mine, Alcan Composites and the sale of 52 per cent of the Group's interest in Cloud Peak Energy Resources LLC. Net gains on these transactions totalling US\$0.5 billion were excluded from underlying earnings as divestments of interests in businesses are considered to be outside the underlying activities of the Group.

Of the Group's total post-tax impairment charge of US\$1,103 million, US\$500 million related to Alcan Engineered Products, US\$212 million related to the Group's aluminium businesses and US\$348 million related to the Group's diamond businesses.

An impairment of US\$318 million relating to the Alcan Packaging businesses was recognised during the year, and was included within loss after tax of discontinued operations.

All impairments were measured based upon an assessment of fair value less costs to sell. These impairments were caused by continued weakness in the economic environment.

In 2009, Rio Tinto paid a break fee of US\$195 million (US\$182 million post-tax) to Chinalco which was excluded from underlying earnings.

During 2009, the Group incurred restructuring and severance costs of US\$231 million associated with its global headcount reduction programme.

### **Net earnings and underlying earnings**

Both net earnings and underlying earnings deal with amounts attributable to the owners of Rio Tinto. However, IFRS requires that the profit for the period reported in the income statement should also include earnings

attributable to non-controlling interests in subsidiaries. The profit for the period is reconciled to net earnings and to underlying earnings as follows:

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|   | 2011<br>US\$m | Restated<br>2010<br>US\$m | 2009<br>US\$m |
|---|---------------|---------------------------|---------------|
| Profit from continuing operations                       | 6,775         | 15,195                    | 5,784         |
| Loss after tax from discontinued operations             | (10)          | (97)                      | (449)         |
| Profit for the year                                     | 6,765         | 15,098                    | 5,335         |
| Less: attributable to non-controlling interests         | (939)         | (860)                     | (463)         |
| Attributable to owners of Rio Tinto (net earnings)      | 5,826         | 14,238                    | 4,872         |
| Exclusions from underlying earnings                     | 9,723         | (251)                     | 1,426         |
| Underlying earnings attributable to owners of Rio Tinto | 15,549        | 13,987                    | 6,298         |

### Group financial results by product group 2011-2009

|                                     | 2011<br>US\$m | Restated<br>2010<br>US\$m | 2009<br>US\$m |
|-------------------------------------|---------------|---------------------------|---------------|
| Iron Ore                            | 12,853        | 10,189                    | 4,126         |
| Aluminium                           | 442           | 611                       | (260)         |
| Copper                              | 1,932         | 2,530                     | 1,874         |
| Energy                              | 1,074         | 1,187                     | 1,167         |
| Diamonds & Minerals                 | 252           | 328                       | 800           |
| Other operations                    | (120)         | 237                       | (232)         |
| Inter-segment transactions          | 40            | (15)                      | (21)          |
| Other items                         | (593)         | (554)                     | (577)         |
| Exploration and evaluation          | (102)         | (52)                      | 5             |
| Net interest                        | (229)         | (474)                     | (584)         |
| Group underlying earnings           | 15,549        | 13,987                    | 6,298         |
| Exclusions from underlying earnings | (9,723)       | 251                       | (1,426)       |
| Net earnings                        | 5,826         | 14,238                    | 4,872         |

### Sales revenue

#### Prices

| Commodity                                | Source                                    | Unit     | 2011<br>US\$ | 2010<br>US\$ | 2009<br>US\$ |
|--|---|----------|--------------|--------------|--------------|
| Average prices                           |   |          |              |              |              |
| Iron ore                                 | Australian fines                          | dmtu (a) | 2.60         | 1.84         | 1.09         |
| Aluminium                                | LME(b)                                    | Tonne    | 2,395        | 2,173        | 1,665        |
| Copper                                   | LME                                       | Pound    | 4.00         | 3.40         | 2.32         |
| Gold                                     | LBMA                                      | Ounce    | 1,571        | 1,222        | 970          |
| Molybdenum                               | Metals Week: quote for dealer oxide price | Pound    | 16           | 16           | 11           |
| Closing prices (quoted commodities only) |   |          |              |              |              |
| Aluminium                                |   | Tonne    | 1,970        | 2,459        | 2,207        |
| Copper                                   |   | Pound    | 3.43         | 4.44         | 3.33         |
| Gold                                     |   | Ounce    | 1,575        | 1,410        | 1,104        |
| Molybdenum                               |   | Pound    | 16           | 16           | 11           |

(a) Dry metric tonne unit. The quoted price for 2011 is based on contract sales under a quarterly long pricing mechanism.

(b) LME cash price.

The above table shows published 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 published prices and Rio Tinto's realised prices. The prices set out in the table are the averages for each of the calendar years 2009, 2010 and 2011.

The Group's sales revenue will not necessarily move in line with these published prices for a number of reasons which are discussed below.

34 [Rio Tinto 2011 Annual report](#)

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## **Table of Contents**

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 (after adjusting for sales to subsidiaries), as included in the financial information by business unit.

### **Iron Ore**

#### **2011 sales revenue compared with 2010**

Gross sales revenue for the Iron Ore group increased by 24 per cent in 2011 compared with 2010 reflecting higher prices and increased volumes. In 2011, Rio Tinto's Pilbara ports operated at above annualised capacity rates and shipped record volumes of 225 million tonnes for the full year.

Rio Tinto priced its iron ore contracts on a quarterly basis with a four month lag for the first three quarters of 2011. From 1 October 2011, the Group transitioned to a more diversified sales contract portfolio. In the fourth quarter, approximately 40 per cent of sales were priced with reference to a quarterly average index set at the prior quarter's average lagged by one month. The remainder was sold on a shorter term price basis linked to current quarter average, current month average or spot index prices. Index prices are adjusted for product characteristics and iron and moisture content.

#### **2010 sales revenue compared with 2009**

Gross sales revenue for the Iron Ore group increased by 91 per cent in 2010 compared with 2009 driven by strong prices and a nine per cent increase in global production. During 2010, iron ore pricing moved to quarterly contracts, reflecting the structural shift away from annual benchmark pricing. Sales volumes increased in response to growing demand in major markets stimulated by improving economic conditions and delays in capacity from other suppliers.

### **Aluminium**

#### **2011 sales revenue compared with 2010**

The Aluminium group's sales revenues are from aluminium and related products such as alumina and bauxite. Gross sales revenue in 2011 for the group increased by seven per cent compared with 2010 driven by higher exchange-traded aluminium prices offset by the effects of adverse weather conditions in the early part of 2011 mainly in Queensland, Australia.

The 2011 average aluminium price was US\$2,395 per tonne, an increase of ten per cent on 2010. In the second half, macroeconomic concerns took hold, particularly the unfolding debt crisis in Europe, thereby reducing prices to below US\$2,000 per tonne towards the end of 2011.

Following the Group's streamlining announcement on 17 October 2011, 13 non-core assets have been transferred into Other operations. These assets are now managed and reported separately from Rio Tinto Alcan while the Group progresses divestment options.

#### **2010 sales revenue compared with 2009**

Gross sales revenue in 2010 for the Aluminium group increased by 30 per cent compared with 2009. The 2010 exchange traded aluminium price averaged US\$2,173 per tonne, an increase of 31 per cent on 2009. This increase reflected the combination of a robust recovery in end use demand in developed economies and the continued rollover of inventory financing positions amidst a prolonged period of low interest rates.

### **Copper**

#### **2011 sales revenue compared with 2010**

The Copper group also produces gold and molybdenum as significant by-products. Gross sales revenue for the Copper group decreased by two per cent in 2011 compared with 2010. This was a reflection of reduced volumes due to lower grades at Kennecott Utah Copper, Escondida and Grasberg. A work stoppage which halted operations for 15 days at Escondida and industrial action at Grasberg also impacted 2011 production levels. Copper increased 18 per cent to 400 cents per pound, gold increased 29 per cent to US\$1,571 per ounce and molybdenum was flat year on year.

At the end of 2011, the Group had an estimated 181 million pounds of copper sales that were provisionally priced at US 344 cents per pound. The final price of these sales will be determined during the first half of 2012.

#### **2010 sales revenue compared with 2009**

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Gross sales revenue for the Copper group increased by 25 per cent in 2010 compared with 2009. The Copper group benefited from higher average prices for its major products in 2010. Copper increased 47 per cent to 340 cents per pound, gold increased 26 per cent to US\$1,222 per ounce and molybdenum increased 45 per cent to US\$16 per pound. The benefit from higher prices in 2010 was partly offset by lower volumes, notably from Grasberg.

At the end of 2010, the group had an estimated 270 million pounds of copper sales that were provisionally priced at US 428 cents per pound.

### Energy

#### 2011 sales revenue compared with 2010

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 for thermal coal; but prices are fixed at different times of the year and on a variety of bases. Coking coal prices for 2011 have been negotiated on a quarterly basis. For these reasons, average realised prices will not necessarily reflect the movements in any of the publicly quoted prices. 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 published prices.

Gross sales revenue in 2011 for the Energy group increased by 30 per cent compared with 2010 as a result of an improved global pricing environment, partially offset by lower volumes following adverse weather conditions in the first half of 2011.

After achieving near record prices for thermal coal in January 2011 following Indonesian and Australian supply side disruptions, global markets for thermal and coking coal experienced broad price declines throughout the remainder of 2011. This decline reflected weaker global economic activity and strong supply growth. However, prices remained well supported.

Uranium declined 38 per cent year on year with substantially lower production at both operations. The processing plant at Energy Resources of Australia was shut from late January to mid June as a proactive strategy to manage processed water levels in the tailings dam following a sustained period of above-average rainfall. Lower grades, lower milled tonnes and lower extraction rates were experienced at Rössing as the mine continues with its major pre-strip programme which will allow access to higher grade, lower strip ratio reserves.

#### 2010 sales revenue compared with 2009

Gross sales revenue for the Energy group increased by 16 per cent in 2010. Overall average coal prices were lower than in 2009 due to the absence of higher carry over prices from 2008. 2010 saw continuing strength in the seaborne market for Australian coal. Demand for thermal coal continued to be robust from South Korea, India, Taiwan and China. Global steel demand improved in all markets in the first half of the year and led to strong demand for semi-soft coking coal. The market for premium quality hard coking coal remained steady in 2010.

Uranium spot markets were relatively weak early in 2010 but strengthened in the second half of the year, mainly driven by strong demand from China. Long-term prices remained consistent with some small increases in the latter part of the year.

### Diamonds & Minerals

#### 2011 sales revenue compared with 2010

Gross sales revenue increased by six per cent in 2011 compared with 2010. The group benefited from higher prices from improved market conditions across all products. This was offset by lower volumes primarily in the diamond business, due to the transition to underground mining at Argyle and severe weather conditions.

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## **Table of Contents**

### **Financial review continued**

Rough diamond prices improved strongly in the first eight months of 2011 due to restocking in the US and continued growth in Chinese and Indian consumer markets. Despite some softening towards the end of the year, global rough diamond prices improved 24 per cent year on year. Diamond prices realised by Rio Tinto depend on the size and quality of diamonds in the product mix. Rio Tinto Diamonds revenues increased by seven per cent year-on-year, despite the impact of lower production volumes.

Revenues for Rio Tinto Iron & Titanium (RTIT) increased by 19 per cent compared with 2010 due to increasing titanium dioxide feedstock, zircon and metallic co-product prices and demand growth associated with urbanisation trends. RTIT continued to replace its multi-year sales contracts with alternative pricing mechanisms in 2011, increasing the exposure to market prices.

Rio Tinto Minerals achieved a five per cent improvement in refined borate revenues in 2011 through strong prices, product mix and steady Asian demand growth.

### **2010 sales revenue compared with 2009**

Gross sales revenue increased by 16 per cent in 2010 compared with 2009. Sustained demand from emerging markets, which largely offset the slower recovery from the established markets of the US and Europe was reflected in higher prices and increased sales volumes for the Diamonds & Minerals group.

Rough diamond prices demonstrated a robust recovery throughout 2010 as demand from emerging markets, notably India and China, accelerated. Demand for titanium dioxide feedstocks, talc and borates in 2010 continued to demonstrate a healthy recovery in line with improving global economic conditions.

### **Cash flow**

#### **2011 compared with 2010**

A full consolidated cash flow statement is contained in the 2011 financial statements.

Cash flows from operations, including dividends from equity accounted units, were US\$27.4 billion, 16 per cent higher than 2010, primarily as a consequence of higher prices. Tax paid in 2011 increased by 51 per cent to US\$6.2 billion in line with higher taxable profits.

Purchase of property, plant and equipment and intangible assets accelerated in 2011 to US\$12.3 billion, an increase of US\$7.7 billion from 2010. This included the continued expansion of the Pilbara iron ore mines and infrastructure to 283 Mt/a in Western Australia, the development of the Oyu Tolgoi copper-gold project in Mongolia, the expansion of the Yarwun alumina refinery in Queensland, the extension and expansion of the Kestrel coking coal mine in Queensland and the underground development of the Argyle diamond mine in Western Australia. The US\$700 million payment to the Government of Guinea following the signing of the agreement for the Simandou iron ore project was recognised as capital expenditure.

In addition, during 2011 the Group spent a total of US\$6.4 billion (net of cash acquired) on acquisitions and increasing interests in businesses. The Group completed the acquisition of a 100 per cent interest in Riversdale Mining Limited for a total of US\$3.7 billion and, in 2011, paid US\$0.5 billion to acquire an 88 per cent interest in Hathor Exploration Limited, which completed on 12 January 2012. Rio Tinto increased its interest in Ivanhoe Mines from 40.3 per cent to 49 per cent and participated in Ivanhoe's rights offering for a total consideration of US\$1.9 billion. On 24 January 2012, Rio Tinto moved to a majority stake in Ivanhoe, taking its interest to 51 per cent.

During 2011, the Group bought back 91 million Rio Tinto plc shares at a total cost of US\$5.5 billion.

Dividends paid in 2011 of US\$2.2 billion were 27 per cent higher than 2010 reflecting the increase in the 2010 final dividend and the subsequent 2011 interim dividend.

#### **2010 compared with 2009**

Cash flows from operations, including dividends from equity accounted units, were US\$23.5 billion, 70 per cent higher than 2009, primarily as a consequence of higher prices.

Tax paid for 2010 increased to US\$4.1 billion, US\$1.024 billion higher than 2009 largely due to the increase in taxable profits. Net interest paid of US\$696 million for 2010 was US\$440 million lower than 2009, largely due to lower amounts of debt, following a US\$8.5 billion repayment of Alcan acquisition facility D at the beginning of 2010.

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Purchase of property, plant and equipment and intangible assets was US\$4.6 billion in 2010, a decrease of US\$0.8 billion from 2009. This included the Brockman 4 iron ore mine development in Western Australia, the expansion of the Yarwun alumina refinery, the commissioning of the Clermont thermal coal mine and the extension and expansion of the Kestrel coking coal mine.

Net cash proceeds from disposals and acquisitions in 2010 were US\$2.9 billion, and related to the disposal of Alcan Packaging businesses and the remainder of Cloud Peak Energy Inc; partly offset by the payments to acquire an additional 20.62 per cent in Ivanhoe Mines.

Dividends paid in 2010 of US\$1.8 billion compared with US\$0.9 billion in 2009 reflected the suspension of the 2009 interim dividend.

### Statement of financial position

Net debt increased from US\$4.1 billion (restated) at 31 December 2010 to US\$8.5 billion at 31 December 2011 as strong operating cash inflows were offset by outflows relating to capital expenditure, acquisitions, the increase in the dividend and the share buy-back programme. Net debt to total capital was 12 per cent at 31 December 2011 and interest cover was 27 times.

In 2011, Rio Tinto issued US\$4 billion of fixed rate bonds, with maturities of five, ten and 30 years. The weighted average maturity was around 12 years and the weighted average coupon was less than 3.7 per cent. At 31 December 2011, 60 per cent of Rio Tinto's adjusted total borrowings of US\$18.1 billion were at fixed interest rates.

As disclosed at the 2011 half year, the Group has revised its definition of net debt, such that it is stated net of the impact of certain funding arrangements relating to equity accounted units (EAU) and partially-owned subsidiaries (EAU funded balances). This modification is required in order to avoid showing borrowings twice in the net debt disclosure, where funding has been provided to an EAU by the Group and subsequently loaned by the EAU to a consolidated Group subsidiary. Comparative figures have been adjusted accordingly. This primarily impacted the consolidation of the net debt of Ivanhoe (an EAU) and Oyu Tolgoi (a subsidiary). Adjusted total borrowings have been similarly adjusted.

Provisions have risen by US\$4.7 billion due to increases of approximately US\$3 billion to the estimate of closure obligations, following revisions to cost estimates (including the impact of mine and infrastructure expansions), combined with changes to the rate used to discount these obligations to their present value. Net pension provisions have increased by approximately US\$1.5 billion due to falling discount rates and lower than expected fund returns.

### Financial risk management

The Group's policies with regard to financial risk management are clearly defined and consistently applied. They are a fundamental part of the Group's long-term strategy covering areas such as foreign exchange risk, interest rate risk, commodity price risk, credit risk, liquidity risk and capital management. Further details of our financial risk management are disclosed in note 31 'Financial risk management' to the 2011 financial statements.

The Group's 2011 Annual report and financial statements show the full extent of its financial commitments, including debt. The principal risks and uncertainties to which the Group is subject are summarised on pages 10 to 12. The effectiveness of internal control procedures continues to be a high

**Table of Contents**

priority in the Rio Tinto Group. The board’s statement on internal control is set out in the Risk management section.

**Capital risk management and dividend**

The Group’s total capital is defined as equity attributable to owners of Rio Tinto plus equity attributable to non-controlling interests and net debt, as shown below:

**Total capital**

|  | 2011          | Restated<br>2010 |
|--|---------------|------------------|
|  | US\$m         | US\$m            |
| Equity attributable to owners of Rio Tinto       | <b>52,539</b> | 58,247           |
| Equity attributable to non-controlling interests | <b>6,669</b>  | 6,265            |
| Net debt (note 25)                               | <b>8,451</b>  | 4,071            |
| Total capital                                    | <b>67,659</b> | 68,583           |

The board’s overriding objective when managing capital is to safeguard the business as a going concern whilst maximising returns for the companies’ shareholders. In practice, this involves regular reviews by the board of the Group’s capital structure. These reviews take into account the Group’s strategic priorities, economic and business conditions and opportunities that are identified to invest across all points of the commodities cycle, and the focus on its progressive dividend policy, whilst also striving to maintain the Group’s overall credit rating. The resulting capital structure provides the Group with a high degree of financial flexibility at a low cost of capital.

Net debt increased from US\$4.1 billion (restated) to US\$8.5 billion at 31 December 2011 as strong operating cash inflows were offset by outflows relating to capital expenditure, acquisitions, the increase in the dividend and the share buy-back programme. Net debt at 31 December 2011 was made up principally from adjusted total borrowings of US\$18.12 billion, offset by US\$9.67 billion in cash and cash equivalents. The proportion of net debt to total capital stood at 12 per cent at 31 December 2011 compared with six per cent at 31 December 2010. As part of the Group’s capital management programme, a share buy-back of US\$7 billion is on track for completion by 31 March 2012.

Rio Tinto has a progressive dividend policy which aims to increase the US dollar value of ordinary dividends over time, taking into account the results of the past year and the outlook. Under the dividend policy, the interim dividend is set at one half of the total ordinary dividend for the previous year and the final ordinary dividend is expected to be at least equal to the previous interim dividend.

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 plc dividends are declared and paid in pounds sterling and Rio Tinto Limited dividends are declared and paid in Australian dollars, converted at exchange rates applicable on 7 February 2012. Details relating to the payment of dividends in sterling, Australian dollars and other currencies and on the payment of dividends to holders of American Depositary Receipts (ADRs) are included in the Shareholder information section.

The Group’s major capital and evaluation projects are listed in the Capital projects section on page 41.

**Liquidity and capital resources**

Details of our Liquidity and Capital risk management are contained within note 31 Financial risk management, part (v), to the 2011 financial statements.

We expect that contractual commitments for expenditure, together with other expenditure and liquidity requirements, will be met from internal cash flow and, to the extent necessary, from the existing facilities described in note 31 Financial risk management, part (v), to the 2011 financial statements.

**Treasury management and financial instruments**

Details of our Treasury management and financial instruments are contained within the introductory paragraphs of note 31 Financial risk management, to the 2011 financial statements.

## Foreign exchange

The following sensitivities give the estimated effect on net and underlying earnings assuming that each exchange rate moved in isolation. The relationship between currencies and commodity prices is a complex one and movements in exchange rates can cause movements in commodity prices and vice versa. 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 that the currency tends to be weak, reducing costs in US dollar terms, when commodity prices are low, and vice versa.

### Earnings sensitivities – exchange rates

|                    | Average exchange rate for 2011 | Effect on net and underlying earnings of 10% change in full year average +/- US\$m |
|--------------------|--------------------------------|--|
| Australian dollar  | US cents 103                   | 910  |
| Canadian dollar    | 101                            | 300  |
| Euro               | 139                            | 8  |
| Chilean peso       | US\$1 = 483 pesos              | 24   |
| New Zealand dollar | 79                             | 25   |
| South African rand | 14                             | 51   |
| UK sterling        | 160                            | 17   |

The exchange rate sensitivities quoted above include the effect on net operating costs of movements in exchange rates but exclude the effect of the revaluation of foreign currency financial assets and liabilities. They should therefore be used with care.

Further details of our exposure to foreign currency fluctuations and currency derivatives, and our approach to currency hedging, are contained within note 31 Financial risk management, part (i), to the 2011 financial statements.

## Interest rates

Details of our exposure to interest rate fluctuations are contained within note 31 Financial risk management, part (ii), to the 2011 financial statements.

## Commodity prices

The approximate effect on the Group's underlying and net earnings of a ten per cent change from the full year average market price in 2011 for the following products would be:

**Table of Contents**

**Financial review continued**

**Earnings sensitivities commodity prices**

|                             | Unit  | Average market price for 2011 | Effect on underlying and net earnings of 10% change in full year average |
|-----------------------------|-------|-------------------------------|--|
|                             | dmtu  | US\$                          | +/- US\$m  |
| Iron ore                    | Tonne | 2,395                         | 1,720  |
| Aluminium <sup>(a)(b)</sup> | Pound | 4.00                          | 510  |
| Copper <sup>(a)</sup>       | Ounce | 1,571                         | 340  |
| Gold                        | Pound | 16                            | 70   |
| Molybdenum                  | Tonne |                               | 55   |
| Thermal and coking coal     |       |                               | 280  |

(a) Excludes the impact of commodity derivatives.

(b) Excludes any impact on the non-core aluminium assets included in Other operations.

The sensitivities give the estimated impact on net 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.

Further details of our exposure to commodity price fluctuations are contained within note 31 Financial risk management, part (iii), to the 2011 financial statements.

**Credit risks**

Details of our exposure to credit risks relating to receivables, financial instruments and cash deposits, are contained within note 31 Financial risk management, part (iv), to the 2011 financial statements.

**Disposals and acquisitions**

Information regarding disposals and acquisitions is provided in note 39 Purchases and sales of subsidiaries, joint ventures, associates and other interests in businesses, to the 2011 financial statements on page 190.

**Australian Minerals Resource Rent Tax**

On 23 November 2011, the Australian Minerals Resource Rent Tax (MRRT) passed through the Australian lower house. The MRRT is a proposed tax on 30 per cent of the super profits from the mining of iron ore and coal in Australia, increasing the tax burden on these mines and hence the Group.

The bill is scheduled to be debated at the Senate in 2012. Whilst it is proposed to be effective from 1 July 2012, this is dependent on the bill being supported and passed through parliament. Once passed the legislation will be considered substantively enacted and the Group will be required to account for the deferred tax consequences under IAS 12 Income taxes from the substantive enactment date.

Deductible expenditure will include a starting base allowance that is proposed to be based on the value of the mining assets at 1 May 2010, depreciated over the life of the mines. Projects will also be eligible for a 25 per cent extraction allowance which reduces the effective statutory tax rate to 22.5 per cent of the super profits.

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State royalties will be creditable for MRRT purposes, and MRRT payments will be deductible for company income tax purposes. The deferred tax consequences will have no current cash flow implications but may be significant. However, given the complexity of the MRRT, quantification remains in progress.

### Critical accounting policies and estimates

Many of the amounts included in the financial statements involve the use of judgment and/or estimates. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements.

Information about such judgments and estimates is contained in note 1 "Principal accounting policies" to the 2011 financial statements, and/or the other notes to the 2011 financial statements. The key areas are listed below:

Dual listed company reporting

Asset carrying values and the recoverability of goodwill

Asset lives

Ore reserve estimates

Close down, restoration and clean up obligations

Overburden removal costs

Deferred tax on fair value adjustments

Exploration and evaluation

Functional currency

Post retirement benefits

Recoverability of potential deferred tax assets

Contingencies

Basis of consolidation

Acquisition accounting

**Off balance sheet arrangements and contractual commitments**

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The table below presents information in relation to our material off balance sheet arrangements, principally contingent liabilities, commitments for capital expenditure and other expenditure, and commitments under operating leases at 31 December 2011. Information regarding the Group's pension commitments and funding arrangements is provided in note 47 Post retirement benefits to the 2011 financial statements. Information regarding the Group's closedown and restoration obligations is provided in note 27 Provisions (not including taxation) to the 2011 financial statements.

We expect that these contractual commitments for expenditure, together with other expenditure and liquidity requirements will be met from internal cash flow and, to the extent necessary, from the existing facilities.

| At 31 December 2011                             | < 1 yr<br>US\$m | 1-3 yrs<br>US\$m | 3-5 yrs<br>US\$m | > 5 yrs<br>US\$m | Total<br>US\$m |
|---|-----------------|------------------|------------------|------------------|----------------|
| Expenditure commitments in relation to:         |                 |                  |                  |                  |                |
| Operating leases                                | 523             | 766              | 564              | 1,052            | <b>2,905</b>   |
| Other (capital commitments)                     | 9,700           | 3,300            | 41               |                  | <b>13,041</b>  |
|   | 10,223          | 4,066            | 605              | 1,052            | <b>15,946</b>  |
| Long-term debt and other financial obligations: |                 |                  |                  |                  |                |
| Debt  | 1,264           | 3,922            | 2,289            | 13,492           | <b>20,967</b>  |
| Interest payments                               | 1,093           | 1,543            | 1,236            | 4,794            | <b>8,666</b>   |
| Unconditional purchase obligations              | 2,578           | 3,828            | 3,211            | 12,303           | <b>21,920</b>  |
| Other   | 1,646           | 256              | 42               | 20               | <b>1,964</b>   |
|   | 6,581           | 9,549            | 6,778            | 30,609           | <b>53,517</b>  |
| <b>Total</b>                                    | <b>16,804</b>   | <b>13,615</b>    | <b>7,383</b>     | <b>31,661</b>    | <b>69,463</b>  |

**Table of Contents**

**Five year review**

**Selected financial data**

The selected consolidated financial data below has been derived from the historical audited consolidated financial statements of the Rio Tinto Group. The selected consolidated financial data should be read in conjunction with, and qualified in their entirety by reference to, the 2011 financial statements and notes thereto. The financial statements as included on pages 131 to 215 have been prepared in accordance with International Financial Reporting Standards both as adopted by the EU (EU IFRS) and as issued by the International Accounting Standards Board (IFRS).

**Rio Tinto Group**

|   | Restated (a)   |          |         |         |          |
|---|----------------|----------|---------|---------|----------|
|   | 2011           | 2010     | 2009    | 2008    | 2007     |
| For the years ending 31 December                                    |                |          |         |         |          |
| Amounts in accordance with IFRS                                     | US\$m          | US\$m    | US\$m   | US\$m   | US\$m    |
| Consolidated revenue  | <b>60,537</b>  | 55,171   | 40,262  | 52,861  | 29,700   |
| Group operating profit <sup>(b)</sup>                               | <b>13,940</b>  | 19,608   | 7,506   | 10,194  | 8,571    |
| Profit for the year from continuing operations                      | <b>6,775</b>   | 15,195   | 5,784   | 5,436   | 7,746    |
| Loss after tax from discontinued operations                         | <b>(10)</b>    | (97)     | (449)   | (827)   |          |
| Profit for the year   | <b>6,765</b>   | 15,098   | 5,335   | 4,609   | 7,746    |
| Basic earnings per share <sup>(c)</sup>                             |                |          |         |         |          |
| Profit from continuing operations (US cents)                        | <b>303.5</b>   | 731.0    | 301.7   | 286.8   | 464.9    |
| Loss after tax from discontinued operations (US cents)              | <b>(0.5)</b>   | (4.9)    | (25.5)  | (52.7)  |          |
| Profit for the year per share (US cents)                            | <b>303.0</b>   | 726.1    | 276.2   | 234.1   | 464.9    |
| Diluted earnings per share <sup>(c)</sup>                           |                |          |         |         |          |
| Profit from continuing operations (US cents)                        | <b>301.5</b>   | 726.7    | 300.7   | 285.5   | 462.9    |
| Loss after tax from discontinued operations (US cents)              | <b>(0.5)</b>   | (4.9)    | (25.4)  | (52.4)  |          |
| Profit for the year per share (US cents)                            | <b>301.0</b>   | 721.8    | 275.3   | 233.1   | 462.9    |
| <b>Dividends per share</b>  | 2011           | 2010     | 2009    | 2008    | 2007     |
| Dividends declared during the year <sup>(c)</sup>                   |                |          |         |         |          |
| US cents  |                |          |         |         |          |
| - interim   | <b>54.0</b>    | 45.0     |         | 55.6    | 42.5     |
| - final and special   | <b>91.0</b>    | 63.0     | 45.0    | 55.6    | 68.7     |
| UK pence  |                |          |         |         |          |
| - interim   | <b>33.1</b>    | 28.2     |         | 29.6    | 20.9     |
| - final and special   | <b>57.3</b>    | 39.1     | 28.8    | 37.9    | 35.3     |
| Australian cents  |                |          |         |         |          |
| - interim   | <b>49.8</b>    | 49.3     |         | 63.3    | 49.6     |
| - final and special   | <b>84.2</b>    | 61.9     | 51.6    | 83.0    | 76.1     |
| Dividends paid during the year (US cents) <sup>(c)</sup>            |                |          |         |         |          |
| - ordinary and special  | <b>117.0</b>   | 90.0     | 55.6    | 124.3   | 94.8     |
| Weighted average number of shares basic (millions) <sup>(e)</sup>   | <b>1,923.1</b> | 1,961.0  | 1,763.6 | 1,570.1 | 1,572.9  |
| Weighted average number of shares diluted (millions) <sup>(e)</sup> | <b>1,935.5</b> | 1,972.6  | 1,769.6 | 1,577.3 | 1,579.6  |
| <b>Statement of financial position data</b>                         |                | (a)      |         |         | (d)      |
| at 31 December  |                | Restated |         |         | Restated |
|   | 2011           | 2010     | 2009    | 2008    | 2007     |
| Amounts in accordance with IFRS                                     | US\$m          | US\$m    | US\$m   | US\$m   | US\$m    |
| Total assets  | <b>119,545</b> | 112,773  | 97,236  | 89,616  | 101,091  |
| Share capital/premium   | <b>10,024</b>  | 10,105   | 9,344   | 5,826   | 3,323    |

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|   |               |        |        |        |        |
|---|---------------|--------|--------|--------|--------|
| Total equity/net assets                       | <b>59,208</b> | 64,512 | 45,925 | 22,461 | 26,293 |
| Equity attributable to Rio Tinto shareholders | <b>52,539</b> | 58,247 | 43,831 | 20,638 | 24,772 |
| Notes   |               |        |        |        |        |

- (a) The financial statements for the year ended 31 December 2010 have been restated in accordance with IFRS 3 Business Combinations (Revised), following reclassification of certain balances relating to the consolidation of Oyu Tolgoi LLC.
- (b) Group operating profit under IFRS includes the effects of charges and reversals resulting from impairments (other than impairments of equity accounted units) and profit and loss on disposals of interests in businesses. Group operating profit amounts shown above exclude equity accounted operations, finance items, tax and discontinued operations.
- (c) The rights issues completed in July 2009 were at a discount to the then market price. Accordingly, earnings per share and dividends per share for all periods up to the date on which the shares were issued were adjusted for the bonus element of the issue. The bonus factor for Rio Tinto plc was 1.2105 and for Rio Tinto Limited was 1.2679.
- (d) The 31 December 2007 balance sheet has been restated for the revisions to Alcan's fair value accounting which were finalised in 2008.

**Table of Contents****Acquisitions and divestments****Acquisitions**

| Asset                       | Cost  | Status  |
|-----------------------------|-------|---|
| US\$m                       |       |   |
| <b>Acquired in 2012</b>     |       |   |
| <b>Copper</b> Ivanhoe Mines | 308   | Purchase of additional shares increasing the Group's holding to 51 per cent   |
| <b>Acquired in 2011</b>     |       |   |
| <b>Copper</b> Ivanhoe Mines | 1,860 | Participation in the strategic rights offering, exercise of outstanding share warrants, exercise of subscription rights granted in 2010 and purchase of additional shares, in aggregate increasing the Group's holding to 49 per cent   |
| <b>Energy</b> Riversdale    | 4,168 | Staged acquisition of shares in Riversdale Mining Limited; acquisition of a controlling interest of 52.6 per cent on 8 April 2011, increasing to 100 per cent by 1 August 2011, with renaming as Rio Tinto Coal Mozambique  |
| <b>Energy</b> Hathor        | 550   | Purchase of shares in Hathor Exploration resulting in an aggregate of a 70.2 per cent controlling interest being reached on 30 November 2011, increasing to 88 per cent by 31 December 2011 and completed on 12 January 2012  |
| <b>Acquired in 2010</b>     |       |   |
| <b>Copper</b> Ivanhoe Mines | 1,590 | Purchases of additional shares, maturing of convertible debt facility and exercise of Series A and B warrants increasing the Group's holding to 40.3 per cent as at 31 December 2010. Rio Tinto consolidated Oyu Tolgoi LLC on 15 December 2010 following the signing of a new agreement with Ivanhoe Mines |
| <b>Acquired in 2009</b>     |       |   |
| <b>Copper</b> Ivanhoe Mines | 388   | The purchase of an additional 9.8 per cent interest increasing the Group's total holding to 19.7 per cent   |

**Divestments**

| Asset  | Proceeds           | Status   |
|--|--------------------|--|
| US\$m  |                    |  |
| <b>Divested in 2011</b>  |                    |  |
| <b>Alcan Engineered Products</b>   | Undisclosed        | Sold 61 per cent to investment funds affiliated with Apollo Global Management, LLC (Apollo) and the Fonds Stratégique d'Investissement (FSI) |
| <b>Minerals</b> Talc   | 340 <sup>(a)</sup> | Sold to Imerys SA  |
| <b>Energy</b> Colowyo  | Undisclosed        | Sold to Western Fuels-Colorado LLC   |
| <b>Exploration</b> sundry assets   | 52                 | Sale of projects including Altai Nuurs coking coal deposit and Sari Gunay gold deposit   |
| <b>Divested in 2010</b>  |                    |  |
| <b>Energy</b> Cloud Peak   | 573                | Secondary public offering  |
| <b>Alcan Packaging</b> Beauty  | Undisclosed        | Sold to Sun European Partners LLP  |
| <b>Alcan Packaging</b> Medical Flexibles   | 66                 | Sold to Amcor  |
| <b>Alcan Packaging</b> Food Americas   | 1,200              | Sold to Bemis Company Inc.   |
| <b>Energy</b> Maules Creek (Rio Tinto: 75.7%)  | 427                | Sold to Aston Resources  |
| <b>Energy</b> Vickery (Rio Tinto: 75.7%)   | 28                 | Sold to Whitehaven Coal  |
| <b>Alcan Packaging</b> global Pharmaceuticals, global Tobacco, Food Europe and Food Asia | 1,948              | Sold to Amcor  |
| <b>Sundry asset sales</b>  | 57                 | Sale of assets including Ghana Bauxite Company, Brockville Specialty Alumina Plant and Rawhide Mine  |
| <b>Divested in 2009</b>  |                    |  |
| <b>Energy</b> Jacobs Ranch   | 764                | Sold to Arch Coal, Inc   |
| <b>Iron Ore</b> Corumbá mine   | 814                | Sold to Vale   |
| <b>Diamonds &amp; Minerals</b> Exploration projects in Argentina and Canada              | 850                | Sold to Vale   |
| <b>Aluminium</b> Ningxia smelter (Rio Tinto: 50%)  | 125                | Sold to Qingtongxia Aluminium Group  |
| <b>Exploration</b> sundry assets   | 68                 | Sold to multiple parties   |
| <b>Energy</b> Cloud Peak   | 741                | IPO and connected debt offering  |
| <b>Alcan Engineered Products</b> composites  | 349                | Sold to Schweiter Technologies   |

(a) Enterprise value

40 [Rio Tinto 2011 Annual report](#)

**Table of Contents****Capital projects**

| Project  | Approved capital cost (100%) US\$ | Status  |
|--|-----------------------------------|---|
| <b>Iron ore</b> expansion of Iron Ore Company of Canada (Rio Tinto 58.7%) from 18 to 22mtpa  | \$486m                            | Recommended in May 2010 and is currently being commissioned as planned.   |
| <b>Iron ore</b> preparation for the expansion of the Pilbara to 283mtpa and beyond (Rio Tinto share \$649m)                                  | \$990m                            | Approved in July and August 2010, the funding allowed long lead items to be ordered as part of early works on the expansion of the Cape Lambert port to 133mtpa capacity.   |
| <b>Iron ore</b> development of Hope Downs 4 mine in the Pilbara (Rio Tinto 50%)  | \$2.1bn                           | Approved in August 2010, first production is expected in 2013. The new mine will have a capacity of 15mtpa and a capital cost of \$1.6 billion (Rio Tinto share \$0.8bn). Rio Tinto is funding the \$0.5 billion for the infrastructure.  |
| <b>Iron ore</b> debottlenecking of Dampier port.   | \$284m                            | Approved in September 2010, the project will add 5 million tonnes of annual capacity at the Dampier port by Q1 2012, taking the Pilbara capacity to 230mtpa.  |
| <b>Iron ore</b> expansion of Pilbara infrastructure to 283mtpa   | \$4.1bn                           | Approved in October 2010, the investment will increase infrastructure capacity by 53 million tonnes to 283mtpa by the end of 2013. Further investments in mine expansions will be required.   |
| <b>Iron ore</b> expansion of Brockman 4 mine (from 22mtpa to 40mtpa) and Western Turner Syncline mine (from 6mtpa to 15mtpa) in the Pilbara. | \$1.4bn                           | Approved in December 2010, the two projects represent the first two of three mine developments to expand mine capacity to an anticipated 283mtpa by the end of 2013.  |
| <b>Iron ore</b> phase two expansion of IOC's concentrate capacity to 23.3mtpa (Rio Tinto 58.7%)  | \$277m                            | Approved in February 2011, phase two is expected to be complete by 2013 (Rio Tinto share \$163 million).  |
| <b>Iron ore</b> phase two of the Marandoo mine expansion to sustain production at 230mtpa  | \$1.1bn                           | Approved in February 2011, the mine will extend Marandoo at 15mtpa by 16 years to 2030.   |
| <b>Iron ore</b> funding for early works and procurement as part of the programme to increase capacity in the Pilbara to 353mtpa              | \$676m                            | Approved in June 2011, the funding (Rio Tinto share \$350 million) will be used to bring forward engineering work for the longest lead-time components of Cape Lambert port development and rail infrastructure. As a result, capacity expansion to 353mtpa will now be reached in the first half of 2015, six months earlier than planned. |
| <b>Iron ore</b> coastal water project in the Pilbara   | \$310m                            | Approved in September 2011, the investment will assure a sustainable water supply for its iron ore operations in the Pilbara.   |
| <b>Iron ore</b> investment in power and fuel supply in the Pilbara   | \$833m                            | Approved in September 2011, the investment (Rio Tinto share \$706 million) in major power and fuel supply projects is part of its drive to substantially increase iron ore production capacity in Western Australia.  |
| <b>Iron ore</b> development of Nammuldi mine in the Pilbara  | \$2.2bn                           | Approved in February 2012, the project represents the third mine development to expand mine capacity to an anticipated 283mtpa by the end of 2013.  |
| <b>Iron ore</b> Cape Lambert port and rail early works for the proposed capacity expansion to 353mtpa  | \$1.2bn                           | Approved in February 2012, the \$1.2 billion funding (Rio Tinto share \$0.7 billion) follows other early works investments approved in June 2011.   |
| <b>Iron ore</b> investment in autonomous trains in the Pilbara   | \$518m                            | Approved in February 2012, the project (Rio Tinto share \$478 million) will drive productivity improvements, with the first driverless train to be launched in 2014, and the AutoHaul™ automated train programme scheduled for completion a year later.   |
| <b>Alumina</b> expansion of the Yarwun refinery in Queensland, Australia from 1.4mtpa to 3.4mtpa   | \$2.3bn                           | Approved in July 2007, the co-generation plant and shiploader were commissioned in 2010 and the calciners were commissioned in the fourth quarter of 2011. The project is expected to commence operation in the third quarter of 2012 with first bauxite to be processed through the expanded plant a few months prior.                     |
| <b>Aluminium</b> construction of a new 225MW turbine at the Shipshaw power station in Quebec, Canada   | \$268m                            | Approved in October 2008, the project remains on track and is expected to be completed in December 2012. An additional \$40 million was approved in 2011 due to currency impacts and scope changes.   |
| <b>Aluminium</b> modernisation of ISAL smelter in Iceland  | \$487m                            | Approved in September 2010, the project is expected to increase production from 190 thousand tonnes (kt) to 230kt between April 2012 and July 2014. The project includes a leading-edge casting facility to produce value-added billet.   |
| <b>Aluminium</b> 60kt per annum AP60 plant in Quebec, Canada   | \$1.1bn                           | Approved in December 2010, first hot metal is expected in February 2013.  |
| <b>Aluminium</b> modernisation and expansion of Kitimat smelter in British Columbia, Canada  | \$3.3bn                           | A further amount of \$2.7bn was approved in December 2011. This was in addition to the cumulative spend of \$550m. It will increase capacity from 280ktpa to 420ktpa. Expected to come on-stream in first half of 2014.   |

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|   |                |   |
|---|----------------|---|
| <p><b>Molybdenum</b> moly autoclave project in Utah, US<br/>Phase 1: 30mlbs, phase 2: 60mlbs</p>  | <p>\$340m</p>  | <p>Approval given to restart in April 2010. Phase 1 by Q4 2012, capacity by Q4 2013. Phase 2 complete in Q1 2015.</p>   |
| <p><b>Nickel</b> construction of the Eagle nickel and copper mine in Michigan, US</p>   | <p>\$469m</p>  | <p>Approved in June 2010, first production is expected in late 2013. The mine will produce an average of 17.3kt and 13.2kt per year of nickel and copper metal over six years.</p>  |
| <p><b>Copper</b> construction of phase one of Oyu Tolgoi copper and gold mine in Mongolia. On 24 January 2012, Rio Tinto increased its stake in Ivanhoe Mines to 51%. Ivanhoe owns 66% of the Oyu Tolgoi copper/gold project.</p> | <p>\$5.9bn</p> | <p>Rio Tinto consolidated Oyu Tolgoi LLC from 15 December 2010 following the signing of a new agreement with Ivanhoe Mines. First commercial production is expected in the first half of 2013.</p>  |
| <p><b>Copper</b> development of Organic Growth Project 1 and the Oxide Leach Area Project at Escondida (Rio Tinto share 30%)</p>  | <p>\$1.4bn</p> | <p>Approved in February 2012, the expenditure primarily relates to replacing the Los Colorados concentrator with a new 152,000 tonnes per day plant, allowing access to high grade ore located underneath the existing facilities. Construction of the new plant will be complete within three years.</p> |

(Rio Tinto share)

**Table of Contents****Capital projects continued**

| Project  | Approved capital cost (100%) US\$ | Status  |
|--|-----------------------------------|---|
| <b>Coking coal</b> 20 year extension and expansion from 4.3mtpa to 5.7mtpa at Kestrel (Rio Tinto 80%), Queensland, Australia                     | \$2.0bn                           | The investment will extend the life of the mine to 2031 and is expected to come on-stream in Q2 2013. Capital cost increased from \$1.1bn: 50% of the increase relates to exchange rates, 20% from higher inflation and 30% due to delays and scope changes.  |
| <b>Thermal coal</b> 6mtpa expansion of Hunter Valley Operations (Rio Tinto 80%) and Mount Thorley Warkworth mine (Rio Tinto 51%)                 | \$260m                            | Approved in July 2010, the two thermal coal expansions are expected to reach the full run rate by mid-2012.   |
| <b>Thermal coal</b> expansion of thermal coal capacity at Bengalla, New South Wales, Australia by 2.1 million tonnes to 7.5 mtpa (Rio Tinto 32%) | \$184m                            | Approved in November 2010, the expansion will include the upgrading of infrastructure and the purchase of additional mining equipment. A feasibility study for a second stage expansion to increase production to 8.5mtpa is under way.   |
| <b>Coking coal</b> development of the greenfield Benga coking and thermal coal mine in Mozambique (Rio Tinto 65%)                                | \$516m                            | Acquired as part of the Riversdale acquisition, Benga is expected to commence production around the end of the first quarter of 2012. Production from phase one is expected to ramp up to a rate of 1.6 mtpa of coking coal and 0.8 mtpa of thermal coal by the end of 2012.  |
| <b>Diamonds</b> Argyle Diamond Mine underground project (originally approved in 2005, project was slowed in 2009)                                | \$2.1bn                           | In December 2011, a further \$0.5 billion of capital was approved for the Argyle underground project. This increase primarily reflected the impact of a record 2010/2011 wet season on project development and adverse exchange rate movements. The project is expected to be complete by the end of 2013 with full production in 2014. |

**Table of Contents**

**Production, reserves and operations**

**Contents**

Production, reserves and operations

|  |    |
|--|----|
| <u>Metals and minerals production</u>  | 44 |
| <u>Ore reserves</u>                    | 48 |
| <u>Mines and production facilities</u> | 58 |

**Table of Contents****Metals and minerals production**

| Rio Tinto                             | 2011 Production<br>Rio Tinto |              | 2010 Production |              | 2009 Production |              |
|---------------------------------------|------------------------------|--------------|-----------------|--------------|-----------------|--------------|
|                                       | Total                        | share        | Total           | share        | Total           | share        |
| <b>ALUMINA ( 000 tonnes) (b)</b>      |                              |              |                 |              |                 |              |
| <b>Rio Tinto Alcan</b>                |                              |              |                 |              |                 |              |
| Jonquière (Vaudreuil) (Canada) (c)    | 100.0                        | 1,363        | 1,301           | 1,301        | 1,125           | 1,125        |
| Queensland Alumina (Australia)        | 80.0                         | 3,360        | 3,821           | 3,057        | 3,959           | 3,167        |
| São Luis (Alumar) (Brazil)            | 10.0                         | 3,385        | 2,507           | 251          | 1,657           | 166          |
| Yarwun (Australia)                    | 100.0                        | 1,349        | 1,377           | 1,377        | 1,347           | 1,347        |
| Specialty plants (Canada) (d)         | 100.0                        | 108          | 123             | 123          | 125             | 125          |
|                                       |                              | 5,846        |                 | 6,109        |                 | 5,929        |
| <b>Pacific Aluminium</b>              |                              |              |                 |              |                 |              |
| Gove (Australia)                      | 100.0                        | 2,549        | 2,473           | 2,473        | 2,519           | 2,519        |
| <b>Other Aluminium</b>                |                              |              |                 |              |                 |              |
| Specialty plants (France/Germany) (e) | 100.0                        | 552          | 507             | 507          | 367             | 367          |
| <b>Rio Tinto total</b>                |                              | <b>8,947</b> |                 | <b>9,089</b> |                 | <b>8,815</b> |
| <b>ALUMINIUM ( 000 tonnes) (b)</b>    |                              |              |                 |              |                 |              |
| <b>Rio Tinto Alcan</b>                |                              |              |                 |              |                 |              |
| Alma (Canada)                         | 100.0                        | 434          | 434             | 434          | 435             | 435          |
| Alouette (Sept-Îles) (Canada)         | 40.0                         | 582          | 569             | 228          | 573             | 229          |
| Alucam (Edéa) (Cameroon)              | 46.7                         | 69           | 76              | 35           | 73              | 34           |
| Anglesey (UK) (f)                     | 51.0                         |              |                 |              | 106             | 54           |
| Arvida (Canada)                       | 100.0                        | 176          | 174             | 174          | 171             | 171          |
| Beauharnois (Canada) (g)              | 100.0                        |              |                 |              | 11              | 11           |
| Bécancour (Canada)                    | 25.1                         | 414          | 417             | 104          | 420             | 105          |
| Dunkerque (France)                    | 100.0                        | 235          | 260             | 260          | 244             | 244          |
| Grande-Baie (Canada)                  | 100.0                        | 223          | 218             | 218          | 215             | 215          |
| ISAL (Reykjavik) (Iceland)            | 100.0                        | 185          | 190             | 190          | 190             | 190          |
| Kitimat (Canada)                      | 100.0                        | 168          | 184             | 184          | 224             | 224          |
| Laterrière (Canada)                   | 100.0                        | 234          | 212             | 212          | 235             | 235          |
| Lochaber (UK)                         | 100.0                        | 45           | 41              | 41           | 38              | 38           |
| Ningxia (Qingtongxia) (China) (h)     |                              |              |                 |              | 10              | 5            |
| Saint-Jean-de-Maurienne (France)      | 100.0                        | 99           | 96              | 96           | 101             | 101          |
| Shawinigan (Canada)                   | 100.0                        | 97           | 100             | 100          | 99              | 99           |
| Sohar (Oman)                          | 20.0                         | 373          | 367             | 73           | 351             | 70           |
| SØRAL (Husnes) (Norway)               | 50.0                         | 89           | 88              | 44           | 98              | 49           |
|                                       |                              | 2,386        |                 | 2,395        |                 | 2,511        |
| <b>Pacific Aluminium</b>              |                              |              |                 |              |                 |              |
| Bell Bay (Australia)                  | 100.0                        | 181          | 177             | 177          | 177             | 177          |
| Boyne Island (Australia)              | 59.4                         | 558          | 558             | 332          | 556             | 331          |
| Tiwai Point (New Zealand)             | 79.4                         | 357          | 344             | 273          | 271             | 215          |
| Tomago (Australia)                    | 51.6                         | 539          | 528             | 272          | 528             | 272          |
|                                       |                              | 1,073        |                 | 1,054        |                 | 995          |
| <b>Other Aluminium</b>                |                              |              |                 |              |                 |              |
| Lynemouth (UK)                        | 100.0                        | 168          | 145             | 145          | 109             | 109          |
| Sebree (US)                           | 100.0                        | 197          | 196             | 196          | 193             | 193          |
|                                       |                              | 365          |                 | 341          |                 | 303          |
| <b>Rio Tinto total</b>                |                              | <b>3,824</b> |                 | <b>3,790</b> |                 | <b>3,808</b> |
| <b>BAUXITE ( 000 tonnes) (b)</b>      |                              |              |                 |              |                 |              |
| <b>Rio Tinto Alcan</b>                |                              |              |                 |              |                 |              |
| Awaso (Ghana) (i) (j)                 |                              |              | 39              | 31           | 401             | 321          |
| Porto Trombetas (MRN) (Brazil) (j)    | 12.0                         | 15,224       |                 |              |                 | 1,827        |