Rio Tinto, Former Top Executives Charged With Fraud

Worldwide Mining Company Alleged to Have Inflated Asset Values

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Washington D.C., Oct. 17, 2017 — The Securities and Exchange Commission today charged mining company Rio Tinto and two former top executives with fraud for inflating the value of coal assets acquired for $3.7 billion and sold a few years later for $50 million.

The SEC's complaint, which was filed in federal court in Manhattan, alleges that Rio Tinto, its former CEO Thomas Albanese, and its former CFO Guy Elliott failed to follow accounting standards and company policies to accurately value and record its assets. Instead, as the project began to suffer one setback after another resulting in the rapid decline of the value of the coal assets, they sought to hide or delay disclosure of the nature and extent of the adverse developments from Rio Tinto's Board of Directors, Audit Committee, independent auditors, and investors.

"As alleged in our complaint, Rio Tinto's top executives allegedly breached their disclosure obligations and corporate duties by hiding from their board, auditor, and investors the crucial fact that a multi-billion dollar transaction was a failure," said Stephanie Avakian, Co-Director of the SEC's Enforcement Division.

"Rio Tinto and its top executives allegedly failed to come clean about an unsuccessful deal that was made under their watch. They tried to save their own careers at the expense of investors by hiding the truth," said Steven Peikin, Co-Director of the SEC's Enforcement Division.

Based on the complaint's allegations, Rio Tinto plc, Rio Tinto Limited, Albanese, and Elliott are charged with violating the antifraud, reporting, books and records and internal controls provisions of the federal securities laws. The SEC seeks permanent injunctions, return of allegedly ill-gotten gains plus interest, and civil penalties from all the defendants, and seeks to bar Albanese and Elliott from serving as public company officers or directors.

According to the SEC's complaint, in 2011, Rio Tinto acquired coal assets in Mozambique shortly after disclosing huge losses associated with its previous large-scale acquisition of Alcan. Both acquisitions took place under Albanese's leadership. The second acquisition was also unsuccessful as it was based on the incorrect assumption that Rio Tinto could inexpensively mine, transport, and sell large quantities of high-quality coal, chiefly using barges for shipping. The SEC's complaint alleges that the project suffered setbacks almost immediately, as Rio Tinto, Albanese, and Elliott learned that there was less coal and of lower quality than expected, and that Mozambique had rejected its barge application. The complaint alleges that the drop in quantity and quality of coal, coupled with the lack of infrastructure to transport it, significantly eroded the value of the acquisition.

The complaint alleges that after already impairing Alcan twice, Rio Tinto, Albanese, and Elliott knew that publicly disclosing its second failure and rapidly declining value would call into question their ability to pursue the core of Rio Tinto's business model to identify and develop long-term, low-cost, and highly-profitable mining assets. Instead, they concealed the adverse developments, allowing Rio Tinto to release misleading financial statements days before a series of U.S. debt offerings. Rio Tinto raised $5.5 billion from U.S. investors, approximately $3 billion of which was raised after May

2012, when executives at Rio Tinto Coal Mozambique had already told Albanese and Elliott that the subsidiary was likely worth *negative* $680 million. The complaint alleges Albanese then repeated and reinforced the false positive outlook for the project in public statements.

The alleged fraud continued until January 2013, when an executive in Rio Tinto's Technology & Innovation Group discovered that the coal assets were being carried at an inflated value on Rio Tinto's financial statements. After an internal review allegedly triggered by the executive's report to Rio Tinto's Chairman, Rio Tinto announced that Albanese had resigned and the company reduced the value of the coal assets by more than $3 billion, or more than 80 percent. After a second reduction, Rio Tinto sold the Mozambique subsidiary for $50 million, billions of dollars below the acquisition price.

The SEC's investigation was conducted by D. Mark Cave, Jeffrey Weiss, and George Spanos and supervised by Melissa Hodgman. The SEC's litigation will be conducted by Mr. Cave, Dean Conway, and Gregory Miller, and supervised by Bridget Fitzpatrick. The SEC greatly appreciates the assistance and collaboration of the U.K. Financial Conduct Authority and the Australian Securities & Investments Commission.

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Related Materials

- SEC Complaint