Stock Study by Diane Windingland 4/4/08

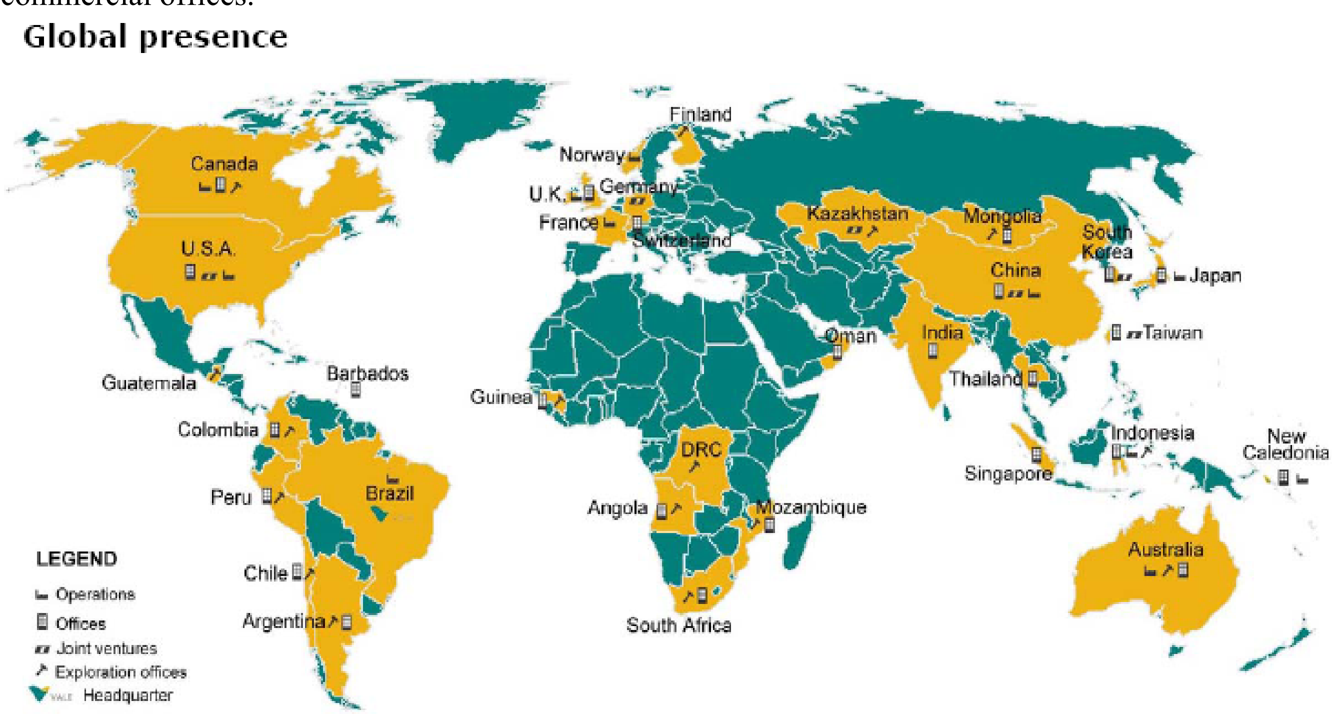
Sector: Basic Materials; Industry: Metal Mining NYSE: RIO

Introduction:
Companhia Vale do Rio Doce (Vale), created by the Brazilian government in 1942 (and privately run since 1997), is the second largest diversified metals and mining company in the world and the largest publicly traded company in Latin America by market capitalization (approximately US$ 167 billion).

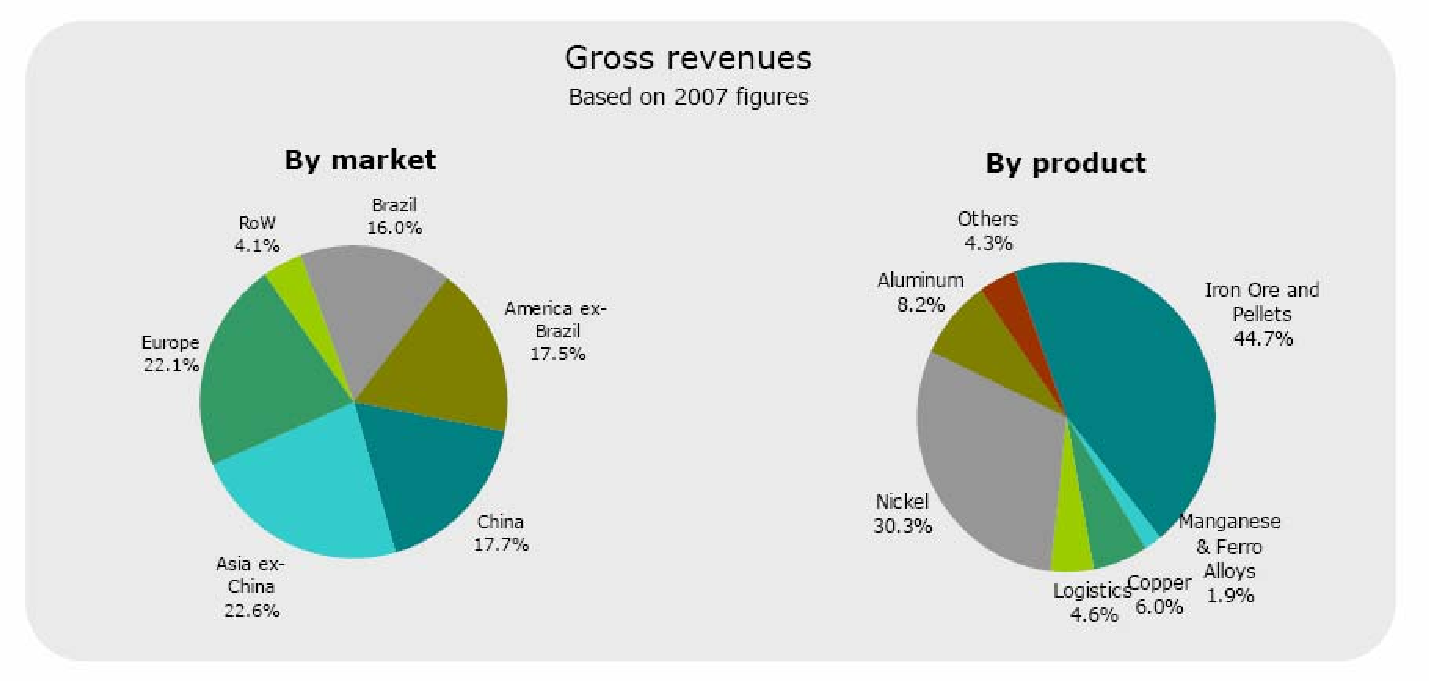
Vale is the world's largest and lowest-cost producer of iron ore and pellets, key raw materials for the steel industry. Vale also is the world's second largest producer of nickel, which is used to produce stainless steel, batteries, special alloys, chemicals and other products. The company also produces copper, manganese, ferroalloys, bauxite, alumina, aluminum, coal, and other raw materials important to the global industrial sector. In addition, Vale operates a logistics business that owns and operates railroads, shipping ports and power plants in Brazil.

Worldwide economic growth catalyzed Vale's already aggressive growth strategy. Organic growth is due primarily to rapid internal expansion fueled by a significant increase in the world's iron ore consumption in the past 5 years, particularly in China. In addition**, the company is committed to a goal of being a one-stop shop for steel production** and aggressively seeks acquisition candidates to diversify. In 2006, the company acquired Canadian nickel miner Inco, vaulting the company in to the position of the world's second largest nickel miner.

Global presence
Vale is a global company headquartered in Brazil, with a workforce of over 100,000 employees. Vale operates on all continents except Antarctica, through its mining operations, mineral research plants and commercial offices.



VALE's Revenue by market and product ($32 billion sales in 2007):



Positive Influences—Reasons to Buy

- Booming demand! Despite the U.S. slowdown, global steel demand is rising about 5% a year. The China Daily recently reported China's crude steel demand could rise 11% in 2008 alone. . Yet, crude steel production in the country is anticipated to only grow 6.3%. China consumes almost half of the world's iron ore. China is Vale's largest client. And Vale is China's largest provider of iron ore.

- Iron ore prices have almost tripled over the past 5 years

- Vale has a wide economic moat for its iron ore business. Vale negotiates an annual benchmark price for iron ore with Chinese steel makers, which significantly influences the price of iron ore charged by all producers.

- The company is experiencing dramatic growth and has been delivering above average returns relative to its competition

- Vale is the lowest cost producer of iron ore (in no small part due to having the logistics business and controlling some transportation costs), which provides downside protection when demand weakens

Negative Influences—Reasons for Concern

- A US recession will have global repercussions, which will weaken world demand for steel (and any weakening of world demand would diminish Vale's ability to negotiate increases in iron ore prices).

- Vale's dependence on China as a consumer of its iron ore leaves it vulnerable to a Chinese economic slowdown

- Big capital expenditures coming: The Company recently announced a huge capital expenditure program--$60 billion over 5 years—for rapid expansion of production in all mineral areas

- Big acquisition costs likely: With its goal of looking for acquisition candidates, the costs could be steep-- the industry is in"consolidation frenzy."

- The company's efforts to diversify away from iron ore could reduce profits and its competitive advantage. In nonferrous metals, Vale isn't clearly the low-cost leader and doesn't wield the pricing power that it does with iron ore.

- The majority of Vale's costs are in Brazillian currency, reals. If the Brazilian currency continues to strengthen (in effect increasing costs) and ore prices fall, the margins will be squeezed .

- Brazil may have some regulatory instability (significant changes in fiscal and international trade policies could hurt the business)

- Cyclical industry

Competition

The top three players - BHP Billiton, Rio Tinto and Vale - act as an oligopoly, dominating nearly 80% of the seaborne iron ore market (as of 2006).

	Percent of Seaborne *(conveyed by ships)* Iron Ore, Market %			
	2004	2005	2006	2007
Vale	34.0%	38.5%	39.6%	
Rio Tinto	19.8%	22.0%	24.4%	
BHP Billiton	16.0%	16.2%	14.2%	
Total	69.8%	76.7%	78.2%	
Ore price increase	17%	71.5%	19%	9.50%
Ore price index 2003 =100	117	200.7	238.8	261.5

- Source for market shares: Raw Materials Group quoted in UNCTAD Trust Fund on Iron Ore Information "Iron Ore Market 2006-2008", Geneva, May 2007

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BHP Billiton, an Australian company, is the world's largest publicly-traded mining conglomerate. BHP is trying to acquire Rio Tinto (also Australian) for $130 billion. This merger would reduce competition (only 2 big guys instead of 3), probably causing ore prices to increase even more.

Vale vs. top competitors*	Total Revenue	5-yr Pre-tax profit margin	5-yr ROE
Vale (RIO) 2007	32,242	42.43	47.63
BHP Billiton (BBL) 6/30/07	39,498	35.48	37.74
Rio Tinto (RTP) 2006	22,465	34.41	29.84

*data from Reuters

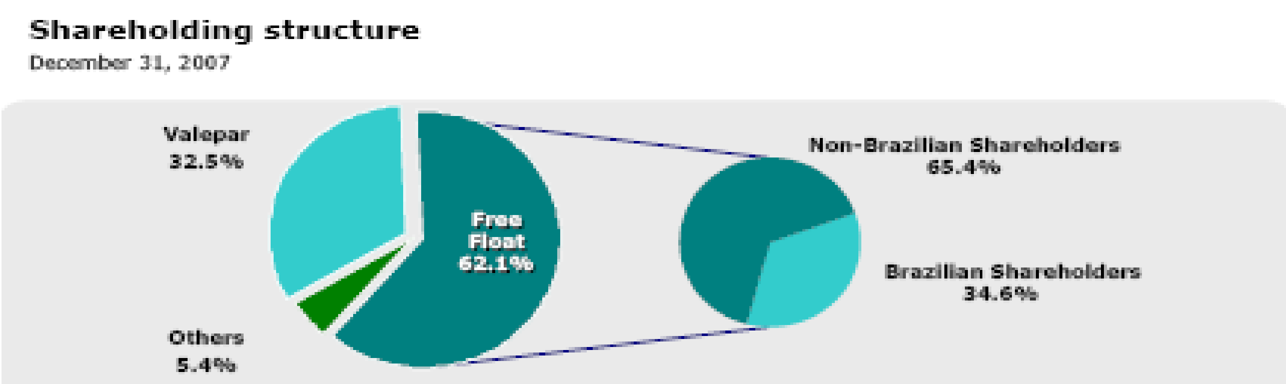
Financial info:

Vale's gross revenue increased six-fold from 2003 to 2007. In 2007**, revenue was up 28.8% and earnings were $2.42, up 62.9%**

At the end of 2007, the company has $19 billion in debt, down from $22.5 billion in 2006. Management is committed to continue paying down debt. There had been a big jump in debt at the end of 2006 to finance the acquisition of nickel miner, Inco.

Note on Shareholder Structure:

The shareholder structure is complex. The company was privatized in 1997 when the Brazilian government sold it to Valepar, an entity comprised of a consortium of businesses. The company has common, preferred and golden shares owned by the government. Therefore, even though the government owns only 5.5% of Vale's total capital, the golden shares entitle it to special veto power over fundamental changes in Vale's business. Valepar holds about 32.5% of Vale's combined preferred and common shares.



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Analysts Estimates
Valueline—there is no Valueline for this stock

Morningstar (3/27/2008)—We expect a 44% increase in revenue in 2008 based on increases in iron ore production and the dramatic price increases negotiated for 2008 iron ore fines and pellets. . .the company's structural advantages should continue to support a long-run operating margin of around 40%. (the Morningstar model assumes a moderation in iron ore price increases over the next 8 years). Morningstar gave the company a 4-star rating, but assigned it a narrow moat because it doesn't have a clear competitive advantage in the non-ferrous half of its business.

Standard & Poors (3/29/2008)—21% increase in sales for 2008, with earnings lagging sales due to high interest expense. Estimated earnings of 2.75 for 2008 (which would be a 13.6% earnings growth for 2008). Longer-term (after 2008) prospects are attractive. Given the debt from the Inco merger, and expected increase in capital spending S&P analysts believe that RIO's target P/E should be at a slight discount to its peers. Applying a P/E multiple of 12.4 to earnings estimate of 2.75 gives a target price of $34 for 2008

Yahoo consensus
33.7% average annual EPS growth over the next 5 years

Reuters consensus
31.33% Long Term EPS growth

Company guidance (2/29/2008 4Q Conference call). They expect 2008 to be "much better" than 2007.

Judgment Notes:
P.A.R. of 12.5% and a Total Return of 17.1% from the following judgments:

3/31/08
I added 4Q2007 raw data.

I chose to cap sales and EPS growth at 20, choosing to ignore the recent slower sales 4Q2007. Yahoo's 5-yr EPS growth estimate is 33.7 and Reuters LT growth estimate is 31.33. However, Manifest predicted sales growth at 12%

For High and Low PE, I struck out the highest year, 2002 and took the resulting average (11.3 and 6.5). However, if I use Manifests average of 12 for both the high and low PE, the return is 18.4%.

I used the trailing 4 quarters EPS for the low EPS (2.42).

For the low price, I used the forecasted low (15.7), which was lower than the low for this year.

My suggestion: Either do not buy at this time or take a small stake. The current price is fairly near the high price.

Stock Selection Guide ®

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
NAIC
INVESTMENT EDUCATION FOR INDIVIDUALS AND CLUBS SINCE 1951

The most widely used aid to good investment judgment

Company Companhia Vale do Rio Doce A Date 03/31/08
Prepared by KimDiane Data taken from StkCntrl
Where traded NYSE Major product/service Steel & Iro
Reference Hemscott

CAPITALIZATION --- Outstanding Amounts

Preferred ($M)	0.0	% Insiders	% Institution
Common (M Shares)	4,919.3	0.0	18.8
Debt ($M) 18,268.0	% to Tot.Cap. 47.7	% Potential Dil.	None

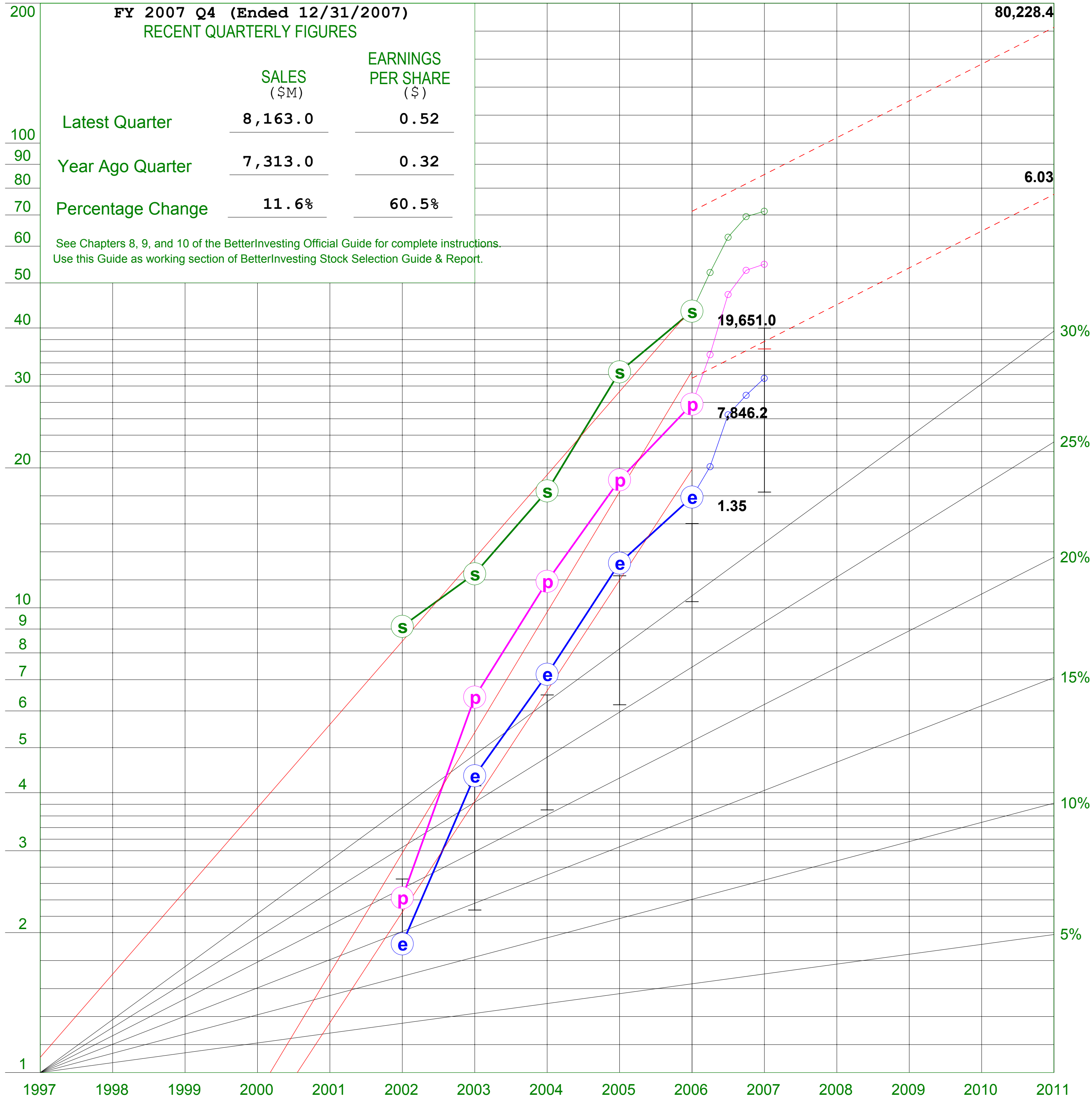
1 VISUAL ANALYSIS of Sales, Earnings and Price

RIO

FY 2007 Q4 (Ended 12/31/2007)
RECENT QUARTERLY FIGURES

	SALES ($M)	EARNINGS PER SHARE ($)
Latest Quarter	8,163.0	0.52
Year Ago Quarter	7,313.0	0.32
Percentage Change	11.6%	60.5%

See Chapters 8, 9, and 10 of the BetterInvesting Official Guide for complete instructions.
Use this Guide as working section of BetterInvesting Stock Selection Guide & Report.



(1) Historical Sales Growth 51.0 %
(3) Historical Earnings Per Share Growth 73.0 %
(2) Estimated Future Sales Growth 20.0 %
(4) Estimated Future Earnings Per Share Growth 20.0 %

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2 EVALUATING MANAGEMENT

Company Companhia Vale do Rio Doce A (RIO) 03/31/08

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)						16.5	34.3	40.4	37.1	39.9	33.7	UP	
B	% Earned on Equity (E/S ÷ Book Value)						18.1	26.0	24.5	28.3	33.0	26.0	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

PRESENT PRICE 34.540 HIGH THIS YEAR 38.320 LOW THIS YEAR 17.000

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2002	2.5	1.8	0.15	~~17.0~~	~~12.2~~	0.060	40.8	3.3
2	2003	4.0	2.1	0.34	11.8	6.2	0.140	41.4	6.7
3	2004	6.2	3.5	0.56	11.1	6.3	0.110	19.7	3.1
4	2005	11.2	5.9	0.97	11.5	6.1	0.280	28.9	4.7
5	2006	14.5	9.9	1.35	10.8	7.4	0.200	14.9	2.0
6	TOTAL		23.2		45.2	26.0		145.7	
7	AVERAGE		4.6		11.3	6.5		29.1	
8	AVERAGE PRICE EARNINGS RATIO			8.9	9 CURRENT PRICE EARNINGS RATIO			14.3	

Proj. P/E [11.89] Based on Next 4 qtr. EPS [2.90] Current P/E Based on Last 4 qtr. EPS [2.42]
PEG=59

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E 11.3 (3D7 as adj.) X Estimate High Earnings/Share 6.03 = Forecast High Price $ 68.1 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E 6.5 (3E7 as adj.) X Estimated Low Earnings/Share ~~1.35~~ 2.42 = $ 15.7

(b) Avg. Low Price of Last 5 Years = 4.6 (3B7)

(c) Recent Severe Market Low Price = 5.9

(d) Price Dividend Will Support Present Divd. / High Yield (H) = 0.310 / 0.067 = 4.6

Selected Estimate Low Price = $ 15.7 (4B1)

C ZONING

68.1 (4A1) High Forecast Price Minus 15.7 (4B1) Low Forecast Price Equals 52.4 (C) Range. 1/3 of Range = 13.1 (4CD)

(4C2) Lower 1/3 = (4B1) 15.7 to 28.8 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 28.8 to 55.0 (Maybe)

(4C4) Upper 1/3 = 55.0 to 68.1 (4A1) (Sell)

Present Market Price of 34.540 is in the Hold (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 68.1 Minus Present Price 34.540 / Present Price 34.540 Minus Low Price (4B1) 15.7 = 33.6 / 18.8 = 1.8 (4D) To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 68.1 / Present Market Price 34.540 = (1.972) X 100 = (197.2) - 100 = 97.2 (4E) % Appreciation

Relative Value: 160.7% Proj. Relative Value: 133.6%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ 0.310 / Present Price of Stock $ 34.540 = 0.009 X 100 = 0.9 (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 4.19 X Avg. % Payout (3G7) 29.1 = 121.9 / Present Price $ 34.540 = 3.5 (5B) %

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 97.2 / 5 = 19.4 %

Average Yield (5B) 3.5 %

Average Total Annual Return Over the Next 5 Years (5C) 22.9 %

	P.A.R.	Tot. Ret.
Average Yield	3.3%	2.6%
Annual Appreciation	9.2%	14.5%
% Compd Ann Rate of Ret	12.5%	17.1%

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Companhia Vale do Rio Doce

STANDARD & POOR'S

S&P Recommendation HOLD ★★★★★

Price
$34.15 (as of Mar 28, 2008)

12-Mo. Target Price
$34.00

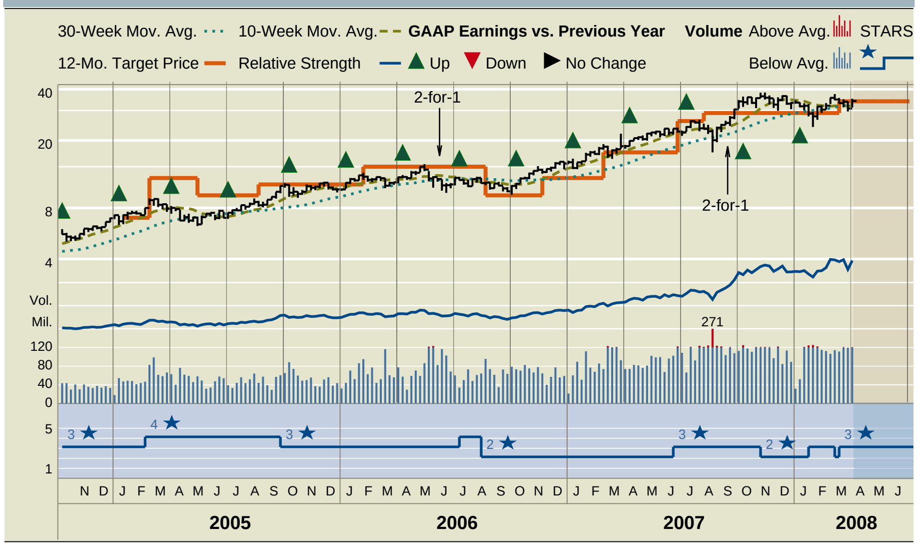
GICS Sector Materials
Sub-Industry Diversified Metals & Mining

Summary Following its acquisition of Inco in 2007, this Brazilian miner became one of the world's largest nickel producers in addition to being the world's largest iron ore company.

Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	$38.32– 17.00	S&P Oper. EPS 2008**E**	2.75	Market Capitalization(B)	$101.407	Beta	2.14
Trailing 12-Month EPS	$2.28	S&P Oper. EPS 2009**E**	NA	Yield (%)	0.94	S&P 3-Yr. Proj. EPS CAGR(%)	43
Trailing 12-Month P/E	15.0	P/E on S&P Oper. EPS 2008**E**	12.4	Dividend Rate/Share	$0.32	S&P Credit Rating	AAA
$10K Invested 5 Yrs Ago	$174,124	Common Shares Outstg. (M)	4,832.4	Institutional Ownership (%)	17		

Price Performance



Options: ASE, CBOE, P, Ph

Analysis prepared by **Leo J. Larkin** on March 11, 2008, when the stock traded at **$ 32.95**.

Highlights

- Following 2007's gain of 64%, we look for a 21% sales increase in 2008, mostly reflecting a higher average price for iron ore. Our expectation for another rise in the iron ore price is predicated on our view that iron ore supply in 2008 will remain tight relative to demand as we expect global steel production to rise in 2008. At the same time, we see a lower average nickel price assuming less robust demand compared with 2007 and greater nickel supply. We anticipate higher shipment volume in 2008, reflecting gains in iron ore and nickel along with increases in alumina, copper and coal.
- We forecast slight operating margin improvement, mostly reflecting lower costs in nickel operations. However, after continued high interest expense, we anticipate that our projected gain in earnings will lag our expected rise in sales. We estimate earnings per ADS of $2.75 in 2008, versus earnings per ADS of $2.42 in 2007.
- Longer term, we see earnings benefiting from increased global steel output, strong secular demand for iron ore, nickel and other base metals, and consolidation of the global mining industry.

Investment Rationale/Risk

- RIO's long-term prospects are attractive, in our view, given what we see as steadily rising demand for iron ore in China together with what we believe is a positive secular outlook for global nickel market supply/demand fundamentals. Over the next 12 months, though, we believe that RIO's P/E valuation will likely trail that of its peers due to the high debt levels necessitated by the acquisition of Inco and its plans to increase capital spending to $11 billion in 2008. We think this spending could strain free cash flow. That, along with its high debt levels, could limit RIO's ability to buy back shares or implement large dividend increases. With RIO recently trading with little upside potential to our 12-month target price, we would not add to positions.
- Risks to our recommendation and target price include a lower nickel price in 2008 than we currently project.
- Given the debt from the Inco merger along with our expectation for growing strain on free cash flow, we believe that RIO's target P/E should be at a slight discount to peers. On that basis, applying a multiple of 12.4X to our 2008 estimate, we derive our 12-month target price of $34.

Qualitative Risk Assessment

LOW	**MEDIUM**	HIGH

Our risk assessment reflects RIO's exposure to highly cyclical demand from the global steel industry and, increasingly, for other base metals. This is offset by RIO's dominant share of the global market for iron ore and its large share of the global nickel market.

Quantitative Evaluations

S&P Quality Ranking NR

D	C	B-	B	B+	A-	A	A+

Relative Strength Rank STRONG

86

LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million $)

	1Q	2Q	3Q	4Q	Year
2007	7,489	8,899	8,124	8,412	33,115
2006	3,340	4,146	5,066	7,313	19,651
2005	2,641	3,536	3,610	3,598	12,792
2004	1,610	1,920	2,287	2,317	8,066
2003	1,110	1,170	1,483	1,690	5,350
2002	953.0	1,027	1,133	1,039	4,123

Earnings Per ADS ($)

	1Q	2Q	3Q	4Q	Year
2007	0.46	0.85	0.60	0.52	2.42
2006	0.26	0.39	0.40	0.33	1.35
2005	0.15	0.35	0.29	0.26	1.05
2004	0.09	0.11	0.21	0.16	0.56
2003	0.08	0.10	0.10	0.06	0.34
2002	0.06	Nil	-0.03	0.12	0.15

Fiscal year ended Dec. 31. Next earnings report expected: Mid June. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

Amount ($)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.299	--	04/17	04/19	05/07/07
2-for-1	08/27	09/13	09/05	09/12/07
0.173	--	10/19	10/23	11/07/07

Dividends have been paid since 2002. Source: Company reports.

Please read the Required Disclosures and Analyst Certification on the last page of this report.

The McGraw-Hill Companies

Companhia Vale do Rio Doce

STANDARD &POOR'S

Business Summary March 11, 2008

CORPORATE OVERVIEW: Incorporated in 1942 and privatized by the Brazilian government in 1997, Vale (formerly Companhia Vale do Rio Doce) is the world's largest producer of iron ore and pellets for use in steelmaking, and the world's second largest producer of manganese and ferroalloys. RIO also produces bauxite, alumina, and primary aluminum, as well as gold, kaolin, and potash. Following its acquisition of Inco Ltd., RIO is one of the world's largest producers of nickel. Through its ownership and operation of railroads and ports, RIO is the largest provider of transportation and logistics in Brazil. As of December 31, 2006, Valepar S.A. held 53.3% of the company's common shares and 32.5% of its total outstanding capital.

CORPORATE STRATEGY: RIO's plans to use its strength in iron ore and nickel as a platform to enhance its position as one of the world's leading diversified metals and mining companies. The company also seeks to increase its geographical and product diversification. RIO expects capital spending to total $59 billion from 2008 through 2012 and be $11.0 billion in 2008. The capital spending program is designed to increase iron ore production to 422 million metric tons by the end of 2012 from 296 million metric tons in 2007. The company expects to boost nickel production to 507,000 metric tons by 2012 from 2007's 247,900 metric tons. RIO also plans substantial increases in the production of alumina, copper, and coal by 2012.

Ferrous products (46.6% of gross revenues in 2007) comprise iron ore mining and pellet production, as well as the Northern and Southern transportation systems, including railroads, ports and terminals, as they pertain to mining operations. Manganese mining and ferroalloys are also included in the segment.

Non-ferrous products (39.3%) include copper, gold, kaolin, nickel, potash, precious metals, platinum group metals and cobalt.

Aluminum products, which include aluminum, alumina and bauxite, accounted for 8.2% of sales.

Logistics services, which includes the operation of rails, shipping and ports, accounted for 4.6% of sales. Other accounted for 0.8% of sales and coal accounted for 0.5%.

Gross revenues by region in 2007 were: Brazil, 16%; U.S., 9%; other Americas, 8.6%; European Union 22.1%; China 17.7%; Japan 11.6%; other Asia 11%; and rest of world 4.0%.

MARKET PROFILE: Mining for base metals is a highly capital intensive business requiring large sums of money to explore for deposits and construct mines once deposits have been discovered. Since the early part of this century, mining costs have risen dramatically. Risks in mining are numerous, and long-term survival and profitability require deep pockets. Since the beginning of the 21st century, the base metals mining industry has become more concentrated as a result of mergers and mining costs have risen substantially.

The company's main competitors in iron ore are BHP Billition and Rio Tinto. These three companies account for some 75% of the seaborne trade in iron ore. Demand for iron ore in recent years has increased dramatically as a result of rising steel production in China. Global production of iron ore in 2006 (latest available data) was some 1.6 billion metric tons.

RIO competes with BHP Billiton, Norilsk Nickel of Russia, ERAMET, Jinchuan Nonferrous Metals and Xstrata in the nickel market. On average, stainless steel production accounts for two thirds of nickel demand. From 1997 to 2006, refined nickel production increased at a CAGR of 3.1%, while refined consumption rose at a CAGR of 3.7%. Global nickel production totaled 1.36 million metric tons in 2006 (latest available data).

UPCOMING CATALYSTS: On March 5, 2008, RIO stated that it was still negotiating to buy Xstrata Plc. The company also stated that it was considering other acquisitions.

FINANICAL TRENDS: From 1999 to 2007, revenues increased at a compound annual growth rate (CAGR) of 34.1%, while earnings per ADR rose at a CAGR of 50.9%. From 2002 to 2007, dividends advanced at a CAGR of 27.7%. From 1999 through 2007, capital spending averaged 400.2% of depreciation, depletion and amortization. For the same period, free cash flow, before acquisitions, dividends and asset sales, increased at a CAGR of 19.3%. We look for a large drop in free cash flow in 2008 from 2007, mostly reflecting sharply higher capital spending.

Each ADS reprsents one ordinary share.

Corporate Information

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M. da Silveira Teixeira Junior

CEO
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Board Members
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H. Tada
F. A. da Costa e Silva
R. da Cruz Gomes
M. da Silveira Teixeira Junior
O. A. de Camargo Filho

Domicile
Brazil

Auditor
PricewaterhouseCoopers, Rio de Janeiro, Brazil

Founded
1942

Employees
52,646

Stockholders
NA

The McGraw-Hill Companies