Rio Tinto PLC RIO [NYSE] | ★★★★

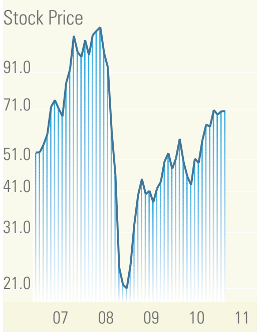
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
69.09 USD	88.00 USD	61.60 USD	123.20 USD	Medium	Narrow	—	—	Industrial Metals & Minerals

Rio Tinto: Pass the Umbrella Please

by Mark Taylor
Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through April 18, 2011.
Rating updated as of April 18, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Apr. 14, 2011

The "weather put option" paid to any notion of a strong production start to fiscal 2011 for Rio Tinto . The implication for BHP's output is also obvious. All major commodity groups suffered sharp volume declines versus the December quarter, the previous corresponding quarter, and even versus our tempered expectations. Australia's flooding rains were no secret, but the breadth and magnitude of the impact was a surprise. Compared to the December quarter, iron ore fell 16%, coking coal by 29%, other Australian coal by 21%, alumina by 8% and uranium by 56%.

Iron ore capacity in the Pilbara may have increased to 225 million metric tons annually, but during the first quarter of 2011, operations were disrupted by three tropical cyclones and widespread flooding. Severe monsoonal rains in Queensland saw declaration of force majeure at four coal mines since the end of 2010. It was in place until late February at three mines, and remains in place at the Hail Creek coking coal mine. Alumina production fell with the rain at Weipa and Gove, and there was only one month's production from uranium miner ERA to manage excess water in the tailings dam. Argyle diamond output also fell.

And there was no relief provided by offshore operations. Canadian iron ore reported lower truck availability and a crusher breakdown. Lower copper grades at Escondida in Chile, Grasberg in Indonesia, and at Kennecott, Utah, drove group mined production down 24%. Rossing uranium in Namibia experienced lower grades and extraction rates, as did Diavik diamonds in Canada. So much for diversification!

There is a silver lining. This is deferred production, not lost production. There will be some catch-up, and where there isn't, reserves are left to produce another day. Probably more importantly, the supply squeeze has benefited pricing. Spot coking coal price blasted through $350 per metric ton in January, versus a fourth quarter 2010 average closer to $225. Thermal coal trends around $125 versus the fourth quarter's $110, and iron ore hit over $180 per metric ton, versus a fourth quarter average closer to $140. At an average $4.35 per pound, first quarter 2011 copper prices are 10% ahead of the fourth quarter. It seems prices will offset volume losses to a considerable extent.

The weak first quarter softens our valuation marginally, and we soften our fiscal 2011 and 2012 earnings forecasts by around 6%. The valuation change pales beside the share price, which has risen 12% since our last write-up, tempering somewhat our front foot stance.

Whether it was the poor quarter or whether Rio Tinto has just had a change of heart, there was unusual candor from this mining behemoth on the exploration front. The company highlighted intercepts of high-grade copper mineralization at its La Granja copper project in Peru, near surface high grade copper and silver mineralization at the Agua de Montana area and encouraging intersections of nickel-copper-platinum-palladium mineralization at a new prospect in Ontario. This is pleasing to hear, though more information would be greatly appreciated. Rio Tinto spent $192 million on exploration in the first quarter, nearly double the previous corresponding period.

The company also highlights its successful 52.6% majority purchase of Riversdale Mining Limited, delivering control of "significant tier-one coking coal projects" in Mozambique. Tier one in geological terms, but not necessarily from a sovereign risk perspective. It flags a quick start to accelerating development of the Benga project.

Thesis Apr. 14, 2011

Rio Tinto is a top-tier global miner along with BHP Billiton, Brazil's Vale, and U.K.-based Anglo American. A world-class asset base and capable management make Rio Tinto one of the few miners to earn more than its cost

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Rio Tinto PLC	USD	135,745	56,576	19,694	14,324
BHP Billiton Limited	USD	273,829	62,354	26,922	17,111
Freeport-McMoRan Copper & Gold	USD	47,902	18,982	9,068	4,273

Morningstar data as of April 18, 2011.

of capital through the commodity cycle. Geographic and product diversification give the company relatively stable cash flows and lower operating risk than many of its mining peers. Most revenue comes from the relative safe havens of Australia, North America, and Europe, though operations span six continents.

Through selective acquisitions and grass-roots exploration, Rio Tinto has assembled a large portfolio of long-lived, low-cost assets. Operations include world-class hubs in aluminum, coal, copper, diamonds, gold, iron ore, industrial minerals, and uranium. This competitive resource base sets Rio Tinto apart from most of the rest of the pack, and supports above-average returns for both the resource industry generally, and its more select diversified mining peers.

Rio Tinto's operating practices are geared toward creating long-term economic value. The company is constantly seeking to enhance efficiency. Planning horizons and existing operations ensure average production levels should be sustained for at least 20 years. The company has a portfolio of quality projects under development or appraisal, and a focused exploration program to seek out and secure new opportunities for profitable expansion. A more recent focus on Alcan-related debt reduction saw much new investment relegated to the back burner. The strategic partnership with Ivanhoe Mines to develop its Oyu Tolgoi copper and gold deposits enhances Rio Tinto's portfolio. Oyu Tolgoi is the largest undeveloped copper deposit in the world.

Rio's board came under criticism for leveraging up the balance sheet to acquire Alcan right at the cusp of the credit crisis. Planned asset sales were late to be realized, necessitating drastic expenditure cutbacks. A $15 billion entitlement issue significantly reduced balance-sheet pressure, and Rio Tinto is now conservatively geared.

RIO has limited pricing power over most of its products. The notable exception is in iron ore, where, along with BHP and Vale, Rio is a member of the global seaborne export oligopoly, with 25% market share. Minimal pricing power is aggravated by the volatile and cyclical nature of commodity prices. However, we do assign a narrow economic moat to Rio Tinto, given the firm's large, low-cost, and nonreplicable operations. The lack of comparable mega-deposits and increasingly prohibitive capital costs pose barriers to entry. Additionally, some pricing power outside of iron ore is shifting toward producers, including in aluminum and copper, though to a lesser extent.

Valuation, Growth and Profitability

We're lowering our fair value estimate to $88 per share from $90 per share following a weather-dampened first quarter 2011 production result. Higher near-term iron ore price forecasts and longer-term aluminum prices are offsetting positives. For iron ore, our first-half calendar year 2011 forecast is $153 per metric ton, second-half calendar year 2011 is $143 per metric ton, first half calendar year 2012 is $134 per metric ton, and second-half calendar year 2012 is $124 per metric ton. Our long-term aluminum price forecast is $1.30 per pound. We don't believe recent historical prices reflect realistic longer-term fundamentals.

The weak first quarter means our fiscal 2011 earnings forecast is marginally lower, down 6%, to $19 billion. Our fiscal 2012 earnings forecast is $19.5 billion, reflecting higher volumes offset by some contraction in commodity prices. Key long-term valuation assumptions are $70 per metric ton iron ore, $70 per metric ton thermal coal, $2.50 per pound copper, $1.30 per pound aluminum, a long-term Australian dollar/U.S. dollar exchange rate of 0.80, and a 10% discount rate.

Risk

Significant environmental and operating risks are associated with mining. Some of the company's assets have country-specific risks. Overall, Rio Tinto offers broad diversification, low costs, and a strong financial position. Because of the volatility in the underlying commodity prices, we think our fair value estimate carries a medium uncertainty rating.

Bulls Say

- Rio Tinto is one of the direct beneficiaries of the increasing appetite for natural resources in China.
- Rio's cash flow base is diversified, and the company is less susceptible to the vagaries of the market than single-commodity producers are.
- The company is run exceptionally well at the asset level, and enjoys a broad portfolio of first-class, low-cost assets.
- Growing producer concentration is slowly tipping pricing power away from the end user toward miners like Rio.
- As staple commodities for developing nations, prices for iron ore and copper in particular are performing very strongly. Two thirds of Rio's value derives from iron ore and copper.

Bears Say

- Sovereign risk heightened following the Australian government's intended Resource Super Profits Tax. The softer replacement Mineral Resource Rent Tax has reduced, but not erased, this risk.
- The global economy is cooling off. Demand for natural resources in China may have peaked, and the Chinese economy could begin to cool off.
- Diversified miners' stocks always trade at discount valuations to pure plays. Investors interested in gaining exposure to a specific commodity would be better off investing in pure plays.
- Rio is subject to the long-term supply/demand balance for metals, the major factor in determining the company's profitability. Rio is top-heavy in iron ore, and needs more balance in its product mix.
- Chinese minerals investment, for production rather than profit's sake, risks eroding some of the limited pricing power mining companies have more recently won.

Financial Overview

Financial Health: The company is now on strong financial footing. Returns on invested capital have averaged 15% during the last five years, and head back toward 20% following fiscal year 2009's aluminum-impacted 9%. Rio Tinto has now largely sold the lower-margin, noncore aluminum assets held longer than expected due to the global financial crisis. Five-year average EBITDA margin is a healthy 30%, and is currently rising.

Company Overview

Profile: Rio Tinto searches for and extracts a variety of minerals worldwide, with the heaviest concentrations in North America and Australia. Major products include aluminum, copper, diamonds, energy products, gold, industrial minerals, and iron ore. The 1995 merger of RTZ and CRA, via a dual-listed structure, created the present-day company. The two operate as a single business entity. Shareholders in each company have equivalent economic and voting rights in Rio as a whole.

Management: Tom Albanese became CEO in May 2007, taking over from Leigh Clifford. Albanese, 52, is the first U.S. citizen to lead the company. He was appointed to the board in 2006 as director of group resources, which is responsible for exploration, operational and technical excellence, human resources, communications and external relations, and global business services. It is widely accepted that Rio Tinto overpaid for Alcan, impacting its capacity to fund growth projects and putting it at unwarranted risk during the global financial crisis. Albanese has been identified as the architect of the inauspicious purchase. Jan du Plessis fills the chairman role, having replaced Paul Skinner in April 2009. He is chairman of British American Tobacco, a nonexecutive director of Marks & Spencer, and was previously nonexecutive director and then chairman of the audit committee of Lloyds TSB.

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Analyst Notes (continued)

Feb. 14, 2011

Prices Drive Stellar Fiscal 2010 for Rio Tinto, Full-Year 2011 Should Be Even Better

Rio Tinto generated record underlying fiscal 2010 earnings of $14.0 billion that came in 3.5% ahead of our $13.5 billion forecast--a very pleasing result, particularly from iron ore where earnings before interest and tax (EBIT) increased 150% to $15.6 billion. This division performed better than we anticipated, thanks to operating costs and rampaging prices. Iron ore unit costs rose a softer than expected 26% to $38 per metric ton, considerably less in Australian dollars. Compare that to the average $127 per metric ton price achieved--an 80% increase on fiscal 2009--or current $170 per metric ton freight on board spot prices. Iron ore earnings before interest, tax, depreciation, and amortization (EBITDA) margin rose from an already impressive 57% to 70%. And the first half of 2011 is shaping up even better.

Iron ore more than offset mild underperformance from aluminum, copper and industrial minerals. By underperformance we mean falling short of our forecast. The worst in this regard was aluminum, though copper was more meaningful from a larger base. It should be stressed that both are considerably improved on full-year 2009, copper EBIT up 34% to $4.2 billion, and aluminum turning the corner from negative $1.0 billion EBIT to a $0.8 billion profit. This is still nowhere near good enough for aluminum and Rio has flagged further divestment. That said, we expect the fortunes of the light metal to improve due to delinking of alumina prices, a key aluminum input. A higher alumina price, reflective of underlying fundamentals, will lead to higher aluminum prices, just as higher energy prices will. Every $0.05 per pound move in aluminum price shifts our Rio earnings and valuation by 1% and 4%, respectively.

Group net operating cash flow doubled to $18.1 billion and net debt declined to $4.4 billion, gearing just 7%. Assisting was a decline in capital expenditure from $5.4 billion to $4.6 billion--both years low in the historical context--and a further $2.9 billion in noncore asset sales, a turnaround from a 200% gearing just 18 months ago. With a balance sheet like this, Rio can reward shareholder loyalty which included having to fork out $15 billion in 2009's entitlement issue. The company upped the final 2010 dividend from $0.45 to $0.63, well ahead of expectations, and announced a $5 billion share buyback by end 2012. This is still modest compared to current cash flows and will allow ample for growth expenditure. There is $12 billion of capital works approved, two thirds in the Pilbara. And Rio's $3.8 billion bid for Riversdale remains open. The dividend sets a new benchmark in the "progressive" policy, interrupted in 2009. We raise our valuation marginally and forecast a 30% increase in fiscal 2011 profit.

Feb. 10, 2011

Iron Ore and Copper Drive Value at Rio Tinto; Lowering Our Fair Value Estimate Slightly

Over two thirds of our Rio Tinto valuation derives from just two commodities: iron ore, and copper. If you add aluminum, you've effectively covered 85% of the value. We stick to these in our commentary on fourth-quarter fiscal 2010 output. Forget diamonds and industrial minerals. Simply forecasting prices for iron ore and copper gets the bulk of the job done. That's not to say there won't be periodic swings and occasional roundabouts in uranium, molybdenum and other products, but these are more generally of passing concern. They are more important for near-term earnings, but less important to overall value.

Iron ore production rose 5% to 50.1 million metric tons, a good result, and better than expected. Rio Tinto has expanded output by around 25% from levels three years ago--similar to BHP, but in a more roller coaster fashion--and has sizeable ongoing expansion programs. It

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Analyst Notes (continued)

proposes a 30% increase in installed Western Australian capacity from current 220 million metric ton per annum levels, to 283 million metric tons by the end of 2013. Its share is around 79%, and further expansion to 333 million metric tons per annum is slated by the end 2015.

Like BHP Billiton, Rio Tinto has enthusiastically pushed expansion since the collapse of the proposed Pilbara iron ore joint venture. Its plans are comparatively less aggressive, though they originate from a larger base, and represent a greater share of group earnings. All things considered, expansion plans are probably similarly meaningful for each, despite BHP's comparatively more optimistic growth target.

Rio Tinto increased fourth-quarter copper production by 16% to 185,000 metric tons, ahead of expectations. It had warned of weaker near term output at Escondida in Chile due to scheduling issues and declining head grades. The strong gain overall is off the back of a very weak third quarter from Grasberg in Indonesia, but heartening nonetheless. Rio Tinto's U.S. Kennecott operations enjoyed improved grades. Escondida though is still likely to see a 5%-10% decline over 2010 due to grade.

Lethargy in copper production is in stark contrast to iron ore's expansion. Declining head grades and prohibitively expensive up-front development temper production growth. It has also made sense to limit new production as the plus $4 per pound copper price can attest. Rio Tinto has held its ground, seemingly happy to let copper revenue grow in the face of stagnant volumes. New production will eventually come via Oyu Tolgoi in Mongolia from 2013. The mine could deliver the equivalent of 15% of Rio's current copper output.

Rio Tinto's fourth-quarter aluminum production grew 2% to 962,000 metric tons, the highest in the year, and in line with expectations. In essence, aluminum output has run below 1 million metric tons per annum capacity levels - boosted by Alcan's purchase in late 2007 - since the global financial crisis. Prices are improving and the decoupling of alumina prices from aluminum is a strong tailwind. This explains why aluminum comprises such a large share of our valuation, despite generating losses in 2009, and contributing only 5% of 2010 group earnings before interest and tax. Aluminum is the sleeper division that could very quickly contribute very meaningfully should recent positive trends continue.

We are marginally lowering our fair value estimate for these shares. We're incorporating higher capital expenditure expectations to better reflect cost pull from higher commodity prices--chiefly iron ore, copper and oil. Partial offsets are the same higher iron ore and aluminum prices. Our fiscal 2010 earnings forecast is marginally improved, thanks to strong fourth-quarter production performances in iron ore and copper. Fiscal 2011 grows more meaningfully, reflecting stronger iron ore pricing.

Dec. 21, 2010

RIO and BHP the Last of the Big Spenders

How do the spending plans of Australia's diversified mining majors stack up? BHP's balance sheet is ungeared and Rio Tinto's is inching closer. When looking solely on the basis of gearing BHP appeared positively miserly over the last decade--with average gearing around 33%. It would have been a starkly different picture if bids for RIO in 2008 and/or PotashCorp in 2010 had proven successful. Perhaps a picture more akin to RIO's none-too-brief flirtation with 200% gearing levels following the $38 billion Alcan

Analyst Notes (continued)

acquisition in 2007. A $15 billion restoring rights issue in 2009 and non-core sell-downs have RIO on the front foot again. Not to mention extraordinarily favorable iron ore prices and top-heavy Pilbara iron ore exposure! At 66%, RIO's average gearing over the last decade is around double BHP's.

On average, BHP and RIO expended the equivalent of 14%-15% of revenue on new capital investment, excluding acquisitions. The difference is BHP spent comparatively less at the beginning of the decade and more toward the end. RIO's expenditure levels halved following the Alcan acquisition and only after two years are they now back to 15% of revenue. The $15 billion entitlement issue, belt tightening, belated non-core asset sales and strong commodity prices brought RIO back from over-indebtedness far sooner than might otherwise have been expected.

BHP delivered the superior returns on invested capital (ROIC)--25% on average over the last decade versus RIO's 18%. Only in 2006 did RIO's returns match BHP's, courtesy of high iron ore and copper prices. Alcan and poor aluminum prices erased that advantage for RIO in subsequent years.

Is RIO a diversified miner? It's getting harder to claim that with 60% of EBIT now derived from iron ore alone. Copper remains a reasonable slice at around one quarter, but coal, aluminum, and industrial minerals are becoming tantamount to also-ran commodities. As for diamonds, forget about it! BHP maintains a far more balanced portfolio although even here there is a decline in symmetry toward steelmaking materials or CSMs--metallurgical coal, manganese, and iron ore. Of course this is not necessarily a bad thing - you've got to make profits where there are profits to be made. But still, we can't help but harbor some concern around increased exposure to one segment. It's working in the miners' favor at present and they are running with it.

How much of the increasing earnings asymmetry is a function of commodity prices as opposed to directed investment? Noteworthy for RIO is the decline in aluminum's contribution despite the massive Alcan acquisition. Aluminum for BHP is also presently a sliver of its former self.

For BHP and RIO, the growth in importance of CSMs to earnings is a function of investment skew and prices. Each has grown the proportion of investment dollars directed to CSMs considerably. Over the decade, BHP doubled CSM expenditure to 40% from 20% of the total. RIO didn't grow it as sharply but it was generally already higher, on average 35% of total capital expenditure versus 30% for BHP. However, the growth in earnings contribution from CSM was even sharper, tripling for RIO and nearly doubling for BHP. High iron ore and coking coal prices were a key driver of this growth in earnings. Aluminum expenditure as a proportion of total spend was surprisingly high for RIO and this ignores the Alcan purchase cost. You wouldn't know it though from the earnings profile - RIO is well primed for an aluminum turnaround. Interesting also is the cranking-up of oil and gas expenditure by BHP.

RIO's capex is set to more than double to around $11 billion in 2011 from 2010's crimped levels. It approved a further $1.2 billion as part of efforts to lift Pilbara iron ore capacity from 220 million tonnes per annum Mtpa to 283 Mtpa--a precursor of a broader expansion to 333 Mtpa by 2015. Of fiscal 2011's $11 billion, 40% is on iron ore, 22% aluminum, 17% energy, 10% on copper, and the rest on diamonds and minerals. It appears RIO remains unashamedly iron ore focused. Interesting is RIO's indicative AUD $15 per share or AUD $3.6 billion offer for Riversdale. RIV has huge undeveloped deposits in Mozambique containing more than 10 billion tonnes of thermal and coking coal. RIO is short coking coal and this might be a comparatively cheap entrØe. The four largest ASX listed coal companies, for example,

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Analyst Notes (continued)

have a combined market capitalization of more than AUD $20 billion and resources of only 8.8 billion tonnes. RIO can wear some sovereign risk given most of its earnings still derive from first world countries.

We remain positive on RIO though share price strength overrides a minor valuation upgrade to $93 per share on iron ore prices. We see RIO as a riskier proposition than BHP, though still a quality company. Lower returns and more asymmetric asset spread detract. Capital expenditure plans do not suggest RIO intends to remedy the second concern anytime soon. But who's counting while the prolific iron ore revenues flow!

Oct. 28, 2010

Rio Tinto and BHP Friends No More

BHP and Rio Tinto terminated their proposed Pilbara iron ore production joint venture. Consummation of the deal was subject to a number of conditions, not the least being regulatory approval. This was always going to be a tough task given the number of jurisdictions involved. After extensive talks, including more recently with the German Federal Cartel Office, it was apparent that approval was unlikely. Rio Tinto and BHP will no longer pursue the joint venture and mutually agreed that no $275.5 million break fee is payable by either.

This was to be a deal reflecting common sense. It covered the entirety of both WA iron ore assets in a 50:50 joint venture. The net present value on a 100% basis of shorter rail hauls, combined mining operations, blending opportunities, and management and overhead savings were calculated to be in excess of $10 billion. Production could have been ramped-up more rapidly than on a standalone basis. It has come to naught, though there might still be opportunities to do deals on some assets. The problem is the majors are extremely wary of carrying third-party product on their 100% owned lines--paranoid about the prospect of open access and the risk that others' rail stock might pose for their vital infrastructure and scheduling.

For now, though, life goes on as usual. Our Rio Tinto numbers assumed the joint venture would proceed. Unwinding that outcome means future iron ore production increases a tad. Next year's gearing for Rio Tinto will be higher without BHP's $5.8 billion equalization payment. Despite all of this, the impact on earnings and valuation is relatively minor. We did not include cost synergies in our numbers, and were relatively conservative on the capital cost savings. For near-term earnings in the context of currently very high iron ore prices, the greater equity share of production is more meaningful than the foregone JV equalization payment from BHP. But in the longer term--more meaningful from a valuation perspective--the foregone savings from capital expenditure synergies is more important. Infrastructure spend will now necessarily be duplicated.

Moreover, what of these regulators in faraway lands? Couldn't BHP and Rio Tinto have just gone ahead and let them lump it? After all, where else were they going to get the iron ore from? The EU was the key player, with others like the German Federal Cartel Office feeding into its decision. They were responding to the concerns of their constituent steel mills around the concentration in ownership of iron ore supply. BHP wasn't willing to speculate as to what remedies the EU and others could have sought. At the very least it could have included requirements to sell certain assets--at the worst restrictions on trade. Both BHP and Rio Tinto have assets in Europe and other jurisdictions. BHP and Rio Tinto decided not to open that can of worms--fundamentally it wouldn't have been a good look. We remain positive on Rio Tinto.

Oct. 18, 2010

Rio Tinto's 3Q10 On the Weaker Side

It wasn't a particularly exciting third quarter 2010 for Rio Tinto , with the combined production result if anything weighing on earnings forecasts and valuation. Compared to the second quarter, output was higher for alumina, coking coal, U.S. coal, refined copper, and iron ore. In fact, iron ore production was a record 47.6 million tonnes with ramp-up of Brockman 4 and Western Turner Syncline tonnages at Hamersley. But output fell for aluminum, Australian coal, mined copper, and diamonds. More importantly, the overall result was below expectations. The weighty aluminum and copper divisions under-performed and stronger iron ore was only a partial offset. Rio Tinto continues to run operations at close to or above capacity rates to take advantage of strong prices for products. If you're pushing to the limits, production assets can push back.

The third-quarter result weighs on earnings but is more than made up for by upgrades to our medium-term commodity price forecasts. We remain positive on Rio Tinto but maintain preference for BHP at the right price. We prefer the latter's more balanced asset portfolio. Rio Tinto is the darling at the moment though, with the shares still playing catch-up after their sin-binning post the Chinalco fiasco in 2009. The balance sheet is back in order, growth is firmly on the agenda and capital expenditure guidance of $13 billion over the 18 months to December 2011 reflects a re-found confidence. The fact that the Pilbara iron ore joint has failed is an added boost--the deal had grown increasingly in BHP's favor as time went by. BHP shares are also held back by the PotashCorp bid.

With respect to third-quarter production, aluminum declined marginally with weakness from the wholly-owned Canadian smelters. Alumina rose 5% to 2.3 million tonnes, strong performances from Gove, Vaudreuil, and Yarwun offsetting lower QAL output. Rio Tinto forecasts its fiscal 2010 share of alumina and aluminum at 9.4 million tonnes and 3.8 million tonnes, respectively. Alumina is key given alumina prices are likely de-coupling from aluminum. In a presentation this month, Alcoa CEO Klaus Kleinfeld said his company was successfully concluding alumina volumes for 2011 using a monthly average of a basket of different published alumina prices. A change is coming for the positive!

Mined copper fell 5% to 160,000 tonnes due to lower grades at Escondida. Refined output improved 18% to 107,000 tonnes with greater efficiencies at the Kennecott, Utah smelter. Rio Tinto forecasts its fiscal 2010 mined and refined copper at 660,000 tonnes and 380,000 tonnes, respectively. This compares unfavorably with 805,000 tonnes and 410,000 tonnes in fiscal 2009 and is lower than we had anticipated. Declining grades are a common theme in the copper industry. LME stocks have fallen a third from 550,000 tonnes to 375,000 tonnes and copper's price is again looking to test $4 per pound. It would be nice to take better advantage of the opportunity but it's cause and effect.

Rio Tinto PLC RIO

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
56,576	135,745	Industrial Metals & Minerals	Basic Materials

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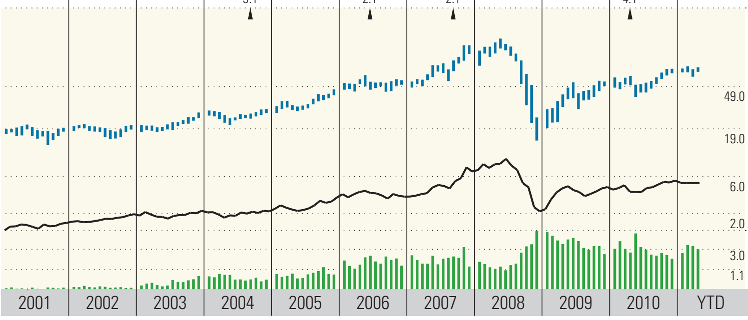
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★	69.09	88.00	Medium	Narrow	—

per share prices in USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD
Annual Price High	21.25	21.50	27.84	29.93	46.32	63.33	121.05	139.66	55.94	72.65	76.67
Low	13.43	15.28	17.93	21.13	27.64	44.02	48.22	14.80	19.63	39.30	61.07
Recent Splits				3:1		2:1	2:1			4:1	



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
76.67 - 39.30
10 Year High/Low
139.66 - 13.43
Bear-Market Rank
0 (10=worst)
Trading Volume Million

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	35.3	24.0	24.3	21.8
Operating Income %	232.7	32.8	19.3	24.2
Earnings/Share %	143.1	8.9	13.9	20.9
Dividends %	30.1	-8.6	1.2	3.6
Book Value/Share %	44.7	22.4	—	—
Stock Total Return %	19.4	-14.1	7.0	17.3
+/- Industry	4.1	-10.6	-5.3	-27.5
+/- Market	9.9	-12.0	7.0	16.0

Profitability Analysis

Grade: D	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	28.0	27.6	5.7	22.7
Return on Assets %	13.7	11.3	3.0	8.5
Fixed Asset Turns	1.1	1.1	1.0	7.3
Inventory Turns	7.6	4.4	3.3	14.5
Revenue/Employee USD K	735.8	552.9*	—	938.4
Gross Margin %	35.2	53.9	62.3	40.2
Operating Margin %	34.8	27.1	33.7	14.7
Net Margin %	25.3	20.3	5.5	10.0
Free Cash Flow/Rev %	24.2	14.7	18.6	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

Grade:	12-09 USD Mil	12-10 USD Mil
Cash	4233	9948
Inventories	4889	4756
Receivables	5116	6234
Current Assets	14932	21459
Fixed Assets	45803	56024
Intangibles	19998	20996
Total Assets	97236	112402
Payables	7088	9349
Short-Term Debt	847	1064
Current Liabilities	9529	11795
Long-Term Debt	22155	14156
Total Liabilities	53405	54069
Total Equity	43831	58333

Stock Performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	
8.8	4.5	43.8	9.5	56.1	20.4	99.8	-77.4	171.0	34.7	-2.7	Total Return %
21.8	27.9	17.4	0.5	53.1	6.8	96.3	-38.9	147.6	21.9	-6.5	+/- Market
-5.5	-247.8	-127.4	-21.0	12.9	0.9	4.2	-23.8	85.3	8.9	-0.3	+/- Industry
0.1	2.9	2.7	2.2	1.8	1.5	1.1	6.8	1.3	1.2	1.8	Dividend Yield %
41679	62204	87061	63579	97489	113515	160466	32473	115009	140795	135745	Market Cap USD Mil

Financials

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
8152	8443	9228	11799	19033	22465	29700	54264	41825	56576	56576	Revenue USD Mil
55.3	50.7	47.1	45.3	56.7	68.6	78.0	68.3	19.1	35.2	35.2	Gross Margin %
1505	777	1404	2296	8145	8830	8403	10194	5920	19694	19694	Oper Income USD Mil
18.5	9.2	15.2	19.5	42.8	39.3	28.3	18.8	14.2	34.8	34.8	Operating Margin %
1079	651	1508	2813	5215	7438	7312	3676	4872	14324	14324	Net Income USD Mil
1.21	0.42	1.00	2.03	3.81	5.56	5.66	2.85	2.75	7.26	7.26	Earnings Per Share USD
0.02	0.57	0.76	0.66	0.84	0.82	1.16	1.52	0.68	0.88	0.88	Dividends USD
892	1543	1503	1386	1368	1339	1291	1334	1770	1973	1973	Shares Mil
—	—	—	—	—	—	16.21	14.13	20.52	29.69	29.69	Book Value Per Share USD
2450	2720	2292	3368	6943	7803	8491	14883	9212	18277	18277	Oper Cash Flow USD Mil
-1430	-1433	-1757	-2357	-2552	-3992	-5000	-8574	-5388	-4591	-4591	Cap Spending USD Mil
1020	1287	535	1011	4391	3811	3491	6309	3824	13686	13686	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
5.5	3.3	6.8	11.3	18.8	23.1	10.8	3.9	5.2	13.7	13.7	Return on Assets %
14.9	8.9	17.2	24.9	37.9	44.8	34.0	16.2	15.1	28.0	28.0	Return on Equity %
13.2	7.7	16.3	23.8	27.4	33.1	24.6	6.8	11.6	25.3	25.3	Net Margin %
0.42	0.42	0.42	0.47	0.69	0.70	0.44	0.57	0.45	0.54	0.54	Asset Turnover
2.7	2.7	2.4	2.0	2.0	1.9	4.1	4.3	2.2	1.9	1.9	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	12-10	Financial Health
-1249	-968	557	1658	2695	1095	2176	-3665	5403	9664	9664	Working Capital USD Mil
2566	2708	3849	3337	2783	2007	38510	29663	22155	14156	14156	Long-Term Debt USD Mil
7176	7462	10037	12584	14948	18232	24772	20638	43831	58333	58333	Total Equity USD Mil
0.36	0.36	0.38	0.27	0.19	0.11	1.56	1.44	0.51	0.24	0.33	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
16.2	47.2	27.8	14.7	12.0	9.6	18.6	6.4	17.9	9.8	9.4	Price/Earnings
—	—	—	—	—	—	—	—	—	0.6	0.6	P/E vs. Market
2.1	3.6	4.5	3.5	3.3	3.2	4.6	0.6	2.3	2.5	2.4	Price/Sales
—	—	—	—	—	—	6.5	1.6	2.6	2.4	2.3	Price/Book
7.1	11.3	18.3	12.3	9.1	9.2	16.0	2.0	10.3	7.7	7.5	Price/Cash Flow

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	9.4	12.4	17.0	16.2
Forward P/E	—	—	—	13.2
Price/Cash Flow	7.5	9.0	14.5	8.4
Price/Free Cash Flow	10.0	19.5	23.4	17.8
Dividend Yield %	1.8	—	1.8	1.8
Price/Book	2.3	—	3.4	2.2
Price/Sales	2.4	2.6	4.3	1.4
PEG Ratio	—	—	—	1.7

Quarterly Results

Revenue USD Mil	Mar 10	Jun 10	Sep 10	Dec 10
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—

Rev Growth %	Mar 10	Jun 10	Sep 10	Dec 10
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—

Earnings Per Share USD	Mar 10	Jun 10	Sep 10	Dec 10
Most Recent Period	—	—	—	—
Prior Year Period	—	—	—	—

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Rio Tinto PLC	135745	56576	9.4	28.0
BHP Billiton Limited	273829	62354	16.0	34.2
Freeport-McMoRan Cop	47902	18982	22.2	45.6

Major Fund Holders

	% of shares
Fidelity Diversified International	0.17
Hartford Dividend & Growth A	0.05
Hartford Dividend & Growth HLS IA	0.05

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis →	**Economic Moat™ Rating** →	Company Valuation →	**Fair Value Estimate** →	Uncertainty Assessment →	★★★★★
Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."