Rio Tinto PLC RIO [NYSE] | ★★★★★

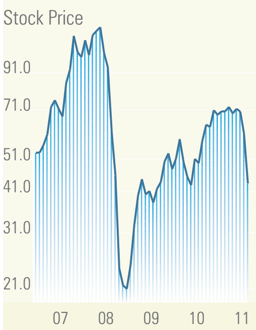
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
51.39 USD	84.00 USD	58.80 USD	113.40 USD	Medium	Narrow	—	—	Industrial Metals & Minerals

Negatives in Rio Tinto's Record 1H Result

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

Pricing data through October 10, 2011.
Rating updated as of October 10, 2011.

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



Analyst Note Aug. 08, 2011

Despite headlines of records, Rio Tinto's first-half underlying earnings fell well short of forecasts, up 35% to $7.8 billion. Record first-half underlying earnings before interest, tax, depreciation, and amortization were up 27% to $14.3 billion and earnings were up 35% to $7.8 billion, reflecting higher prices. Record first-half cash flow rose 24% to $9.7 billion. However, volume is still recovering from extreme first-quarter weather, and higher costs including labor are being further inflated by adverse exchange rate movements. The sum of these is only a partial offset to pricing.

The iron ore and energy segments performed to expectations, but copper and aluminum divisions underwhelmed. Compared with the previous corresponding period, iron ore EBITDA rose 47% to $9.8 billion, or 70% of the group total. This is in line with the second half of 2010, when it also constituted 70%. It's fine while the music keeps playing and if it's an iron ore major you're chasing. But for those who thought they owned a diversified major with the stable earnings stream that such a structure affords, BHP Billiton increasingly appears to be the preferred play. Rio didn't achieve quite the iron ore price we predicted, around $150 per tonne versus $160. But operating costs, surprisingly low and up only marginally on the second half of 2010 to just over $40 per tonne, were an offset.

Energy earnings were down slightly, in line with levels anticipated; the impact of extreme weather on coal and uranium was well flagged. More disappointing was copper EBITDA rising 21% to $2.4 billion--pedestrian when one considers prices were 28% higher at more than $4 per pound. Costs are soaring, with the EBITDA margin contracting to 30% from 50% in second half 2010. Lower volume due to grades and scheduling issues is exacerbating inflation generally.

Aluminum wasn't any better, which is perhaps more worrying, given the poor return on invested capital from Alcan to date. EBITDA rose just 13% to $1.4 billion in the face of a 17% aluminum price increase to $1.13 per pound, and the EBITDA margin was just 18%. The aluminum result is worrying enough for Rio to flag a focus on transformational change, portfolio discipline, a reduced cost structure, and margin improvement to deliver $1 billion in incremental EBITDA by 2014. A strategic review of assets in France, Germany, and the United Kingdom could lead to sales. An EBITDA margin of 40% is targeted, reflecting high return creep and modernization on retained assets.

Rio's net debt increased $5.3 billion in the first half to $8.6 billion, as record cash flows were consumed by $5.0 billion in acquisitions (Riversdale and Ivanhoe), $5.1 billion on capital expenditures (Western Australia iron ore, Oyu Tolgoi, Yarwun alumina, and Kestrel coal), $2.4 billion in share buybacks, and $1.2 billion in dividends, among other things. Gearing is now 15%. The $0.54 interim dividend is in line with progressive policy and previous guidance. The dividend will be paid Sept. 8.

The weaker-than-expected result caused our fiscal 2011 and fiscal 2012 earnings forecasts to decline 7% and 3% to $9.00 and $9.60 per share, respectively. Our fair value estimate declines 5% to $84 per share from $89. Copper and aluminum disappointed, and we're raising our longer-term operating cost forecasts. It may seem odd focusing on the shortcomings of what is overall a very strong result. But commodity prices can turn on a dime; operating cost structures are a lot stickier and they are rising. We retain a positive view overall; the shares are still at a steep discount to our fair value estimate, aided by the market pullback in general. Rio remains bullish on the demand outlook, though with continued volatility, strong currencies, and higher input prices.

Thesis Aug. 08, 2011

Rio Tinto is a top-tier global miner along with BHP Billiton, Brazil's Vale, and U.K.-based Anglo American. A

Rio Tinto PLC RIO [NYSE] | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
51.39 USD	84.00 USD	58.80 USD	113.40 USD	Medium	Narrow	—	—	Industrial Metals & Minerals

Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Rio Tinto PLC	USD	100,969	61,088	22,727	16,066
BHP Billiton Ltd	USD	201,027	71,739	31,816	23,648
Freeport-McMoRan Copper & Gold	USD	34,152	22,278	11,289	5,594

Morningstar data as of October 10, 2011.

world-class asset base and capable management make Rio Tinto one of the few miners to earn more than its cost 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 leveraged.

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% 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 irreplicable operations. The lack of comparable megadeposits 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 $84 per share from $89 following weaker-than-expected results for the first half of fiscal 2011. Copper and aluminum disappointed, and we are raising our longer-term operating cost forecasts. It may seem odd focusing on the shortcomings of what was overall a very strong result. But commodity prices can turn on a dime; operating cost structures are a lot stickier and they are rising. Regardless, we retain a positive view overall.

For iron ore, our second-half calendar 2011 forecast is $143 per metric ton, first-half calendar 2012 is $134 per metric ton, and second-half 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.

We are lowering our fiscal 2011 earnings forecast to $17.5 billion from $19.3 billion. Our fiscal 2012 earnings forecast is similar, reflecting higher volume 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 slow.
- 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 its profitability. The firm is top-heavy in iron ore and needs more balance in its product mix.
- Chinese mineral 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 past five years and head back toward 20% following fiscal 2009's aluminum-affected 9%. Rio Tinto has now largely sold the lower-margin, noncore aluminum assets held longer than expected because of the global financial crisis. The five-year average EBITDA margin is a healthy 30% and 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, affecting 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.

Rio Tinto PLC RIO [NYSE] | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
51.39 USD	84.00 USD	58.80 USD	113.40 USD	Medium	Narrow	—	—	Industrial Metals & Minerals

Analyst Notes

Aug. 08, 2011

Negatives in Rio Tinto's Record 1H Result

Despite headlines of records, Rio Tinto's first-half underlying earnings fell well short of forecasts, up 35% to $7.8 billion. Record first-half underlying earnings before interest, tax, depreciation, and amortization were up 27% to $14.3 billion and earnings were up 35% to $7.8 billion, reflecting higher prices. Record first-half cash flow rose 24% to $9.7 billion. However, volume is still recovering from extreme first-quarter weather, and higher costs including labor are being further inflated by adverse exchange rate movements. The sum of these is only a partial offset to pricing.

The iron ore and energy segments performed to expectations, but copper and aluminum divisions underwhelmed. Compared with the previous corresponding period, iron ore EBITDA rose 47% to $9.8 billion, or 70% of the group total. This is in line with the second half of 2010, when it also constituted 70%. It's fine while the music keeps playing and if it's an iron ore major you're chasing. But for those who thought they owned a diversified major with the stable earnings stream that such a structure affords, BHP Billiton increasingly appears to be the preferred play. Rio didn't achieve quite the iron ore price we predicted, around $150 per tonne versus $160. But operating costs, surprisingly low and up only marginally on the second half of 2010 to just over $40 per tonne, were an offset.

Energy earnings were down slightly, in line with levels anticipated; the impact of extreme weather on coal and uranium was well flagged. More disappointing was copper EBITDA rising 21% to $2.4 billion--pedestrian when one considers prices were 28% higher at more than $4 per pound. Costs are soaring, with the EBITDA margin contracting to 30% from 50% in second half 2010. Lower volume due to grades and scheduling issues is exacerbating inflation generally.

Aluminum wasn't any better, which is perhaps more worrying, given the poor return on invested capital from Alcan to date. EBITDA rose just 13% to $1.4 billion in the face of a 17% aluminum price increase to $1.13 per pound, and the EBITDA margin was just 18%. The aluminum result is worrying enough for Rio to flag a focus on transformational change, portfolio discipline, a reduced cost structure, and margin improvement to deliver $1 billion in incremental EBITDA by 2014. A strategic review of assets in France, Germany, and the United Kingdom could lead to sales. An EBITDA margin of 40% is targeted, reflecting high return creep and modernization on retained assets.

Rio's net debt increased $5.3 billion in the first half to $8.6 billion, as record cash flows were consumed by $5.0 billion in acquisitions (Riversdale and Ivanhoe), $5.1 billion on capital expenditures (Western Australia iron ore, Oyu Tolgoi, Yarwun alumina, and Kestrel coal), $2.4 billion in share buybacks, and $1.2 billion in dividends, among other things. Gearing is now 15%. The $0.54 interim dividend is in line with progressive policy and previous guidance. The dividend will be paid Sept. 8.

The weaker-than-expected result caused our fiscal 2011 and fiscal 2012 earnings forecasts to decline 7% and 3% to $9.00 and $9.60 per share, respectively. Our fair value estimate declines 5% to $84 per share from $89. Copper and aluminum disappointed, and we're raising our longer-term operating cost forecasts. It may seem odd focusing on the shortcomings of what is overall a very strong result. But commodity prices can turn on a dime; operating cost structures are a lot stickier and they are rising. We retain a positive view overall; the shares are still at a steep discount to our fair value estimate, aided by the market pullback in general. Rio remains bullish on the demand outlook, though with continued volatility, strong currencies, and higher input prices.

Jul. 14, 2011

Trend to Iron Ore Dominance Continues in 2Q11

As we've propounded in more recent research, it has become debatable whether Rio Tinto is a diversified major, or an iron ore major with copper and aluminum interests. Iron ore volumes and pricing have grown at pace, while copper and aluminum volumes stagnated. Copper prices have grown strongly, though. Strong iron ore prices and growth are like manna from heaven while other segments flail, particularly with recent nearly unprecedented weather interruptions causing havoc.

Overall, second-quarter 2011 volumes showed ongoing improvement for Rio from those severe first-quarter rain impacts, though some port and rail constraints remain. CEO Tom Albanese said the second quarter of 2011 was "characterized by continued strong prices for most of our metals and minerals but with worsening adverse exchange rates and some input cost pressures." The trend for iron ore to dominate the company's portfolio continues, with the segment one of the few to record volume growth versus normalized quarterly levels in the second quarter.

Compared with the first quarter of 2011, second-quarter iron ore production increased 17% to 48.9 million metric tons, marginally ahead of expectations. The recovery came despite unseasonably wet weather continuing throughout. Pilbara system capacity increased by 5 million metric tons to 225 million metric tons per annum at end of the first quarter, and expansion to 283 million metric tons per annum by the second half of 2013 remains on track. Rio expects to produce 192 million metric tons of iron ore globally on an equity basis in 2011, marginally ahead of our prior estimate, and we upgrade accordingly. This is sufficient to offset the impact of downgrades we make across many of the other segments.

Mined and refined copper output fell 13% and 6% respectively, to levels below expectations. Rio has previously forecast lower copper volumes due to grade declining with mine sequencing issues. Compared with the second quarter of 2010, Escondida head grade fell to 1.1% from 1.4%, Grasberg to 0.7% from 0.8%, and Bingham Canyon to 0.38% from 0.48%--severe indeed. Lower Grasberg grades further substantially reduce Rio's cut under the metal sharing agreement. Higher Bingham molybdenum grades are a minor offset only. Rio forecasts group fiscal 2011 copper production at 539,000 metric tons mined and 350,000 metric tons refined, lower than our prior forecast, which we now adjust.

Rio's third major pillar, aluminum, performed better, up 2% to 958,000 metric tons in the second quarter, and key input alumina volumes rose 6% to 2.2 million metric tons. Still, even here Rio's full-year production forecast of 9.2 million metric tons alumina and 3.9 million metric tons aluminum is a tad softer than expected. Production is recovering more gradually from rains, with the likely negative impact to earnings around $130 million for the first half of 2011.

These three key commodity groups account for more than 90% of profit, in the case of iron ore, 65% alone. To go into chapter and verse on the lesser lights makes no sense. We make no change to valuation or our overall view on Rio. Earnings forecasts soften a touch, with iron ore largely offsetting any weakness around the margin elsewhere. Copper should improve with time when mine scheduling enables access to higher grades again. Rio exercised warrants in June, taking its ownership of Ivanhoe Mines to 46.5%. That company's 66% Oyu Tolgoi mine in Mongolia

Analyst Notes (continued)

comes on line in late 2012 and is likely to be a top ten global copper producer at full production in 2018.

Jun. 21, 2011

What Might Aluminum Mean to RIO?

In mid-2007 Rio Tinto bought Canada's Alcan for $38.1 billion in cash, now widely regarded as one of the most ill-timed acquisitions in corporate history. A key plank was that aluminum prices had not run like the other metals and value remained on the table. But the reason aluminum had not run was that the market was flush with high-cost Chinese output, seemingly immune to the realities pressuring mortal "for-profit" companies. The Chinese production persisted and Rio Tinto sailed headlong into the Global Financial Crisis before it could off-load noncore assets. Gearing spiked to near 200% levels, and if not for the grace of shareholders the company might have been reporting profits in Renminbi and updates in Cantonese.

As history shows, Rio Tinto survived and sold around $7.5 billion net in assets in the three years to 2010. Along with 2009's $15.2 billion rights issue, strong cash flows, and a freeze on capital expenditure, the company is now net debt neutral at the mid-2011 mark. This is in no part thanks to the aluminum division, which continues to underperform in contrast to copper and iron ore.

Prior to Alcan in 2006, Rio Tinto's aluminum division generated around 10% of earnings before interest and tax (EBIT) on a 30% margin. Aluminum margins have not been above 5% since 2008 and were decidedly negative in mid-2009. In 2010, aluminum contributed just 4% of EBIT, making that Alcan acquisition look very expensive indeed. Remember this ignores the interest associated with the Alcan debt!

But can things turn around? Alcan increased Rio Tinto's aluminum capacity nearly fourfold to over 4 million tonnes per annum (Mtpa) and alumina output twofold to 9 Mtpa. There was sense in combining Rio Tinto's excess alumina capacity with a company long on smelting technology and hydro power but short the white powder. Significantly Rio Tinto is still self-sufficient in alumina, a crucial advantage in what is becoming a new pricing paradigm. We pointed to this repeatedly in our reporting on Alumina. The long-held linkage of the alumina price to the LME aluminum price is broken. Alumina prices, now reflective of industry fundamentals, are rising. And aluminum prices are following.

An additional nail in the Chinese stranglehold on pricing is energy. The country has a power problem that, it has been argued, can only be rectified by a tripling in electricity prices to drive new capacity. That would have more than serious ramifications for the Chinese aluminum industry, which is highly energy intensive and an industry that if operated under capitalist principles probably wouldn't exist. China is short cheap coal, the source of 70% of its electricity--a structural issue.

Rio Tinto's Alcan folly may yet turn to triumph, though it probably didn't need to mortgage itself nor shareholders' nerves by moving quite as early as it did. Easy for armchair experts to say in hindsight, of course, harder to time in the real world! Few saw the GFC coming. Iron ore unit operating costs rose at an average cumulative rate of almost 20% over the last decade. Despite this, Rio Tinto's EBIT margins increased by over 50% to 65% thanks to strong pricing. Similarly copper operating costs rose by a cumulative annual 13% with margins regardless doubling due to price to over 50%.

If aluminum prices had been allowed to operate under

Analyst Notes (continued)

normal market forces, it is not inconceivable that margins might now be at least 30%, despite the nonetheless admirable 11% cumulative average growth in unit operating cost over the last decade. At that rate, necessitating a $1.40 per lb aluminum price, the aluminum division could be contributing $5.2 billion or 16% to notional expanded fiscal 2011 group EBIT with prospective group earnings of $10.90 per share, placing Rio Tinto on a paltry 7 times price earnings multiple, down from 8.

We don't presume to be so optimistic--Chinese smelters will doubtless fight for survival. Our long-term aluminum price forecast is still at a considerable premium to spot--we are optimistic with cautionary overtones. And the aluminum leverage is worthy of consideration in any Rio Tinto evaluation.

Apr. 14, 2011

Rio Tinto: Pass the Umbrella Please

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.

Analyst Notes (continued)

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.

Rio Tinto PLC RIO

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
61,088	100,969	Industrial Metals & Minerals	Basic Materials

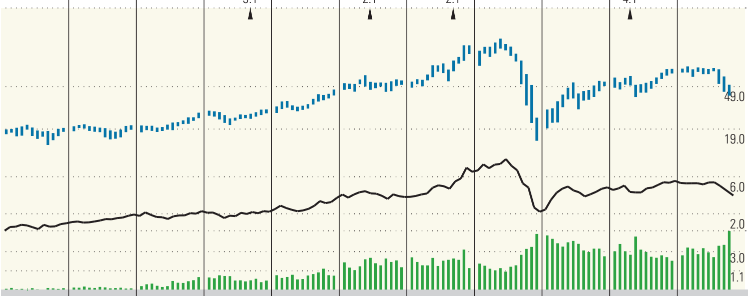
Rio Tinto searches for and extracts a variety of minerals worldwide, with the heaviest concentrations in North America and Australia. Major products include aluminum, copper, diamonds, energy products, gold, industrial minerals, and iron ore. The 1995 merger of RTZ and CRA, via a dual-listed structure, 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.

2 Eastbourne Terrace
London, United Kingdom W2 6LG
Phone: 44 2077812000 Website: http://www.riotinto.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★★	51.39	84.00	Medium	Narrow	—

per share prices in USD

21.25	21.50	27.84	29.93	46.32	63.33	121.05	139.66	55.94	72.65	76.67	Annual Price High
13.43	15.28	17.93	21.13	27.64	44.02	48.22	14.80	19.63	39.30	40.50	Low
			3:1		2:1	2:1			4:1		Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
76.67 - 40.50
10 Year High/Low
139.66 - 13.43
Bear-Market Rank
3 (10=worst)
Trading Volume Million

Growth Rates Compound Annual

Grade: B	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	24.8	—
Stock Total Return %	-17.3	11.5	5.2	14.2
+/- Industry	-5.4	-13.5	-6.4	-7.7
+/- Market	-19.8	1.6	7.7	13.4

Profitability Analysis

Grade: D	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	29.6	27.6	29.0	24.5
Return on Assets %	15.0	11.3	14.6	9.5
Fixed Asset Turns	1.2	1.1	0.7	7.3
Inventory Turns	7.5	4.4	3.8	15.3
Revenue/Employee USD K	794.4	552.9*	—	1008.5
Gross Margin %	38.0	53.9	52.0	39.2
Operating Margin %	37.2	27.1	46.5	16.1
Net Margin %	26.3	20.3	34.1	10.9
Free Cash Flow/Rev %	19.4	14.7	15.5	0.1
R&D/Rev %	—	—	—	9.9

Financial Position

Grade:	06-10 USD Mil	12-10 USD Mil
Cash	9948	9948
Inventories	4756	4756
Receivables	6234	6234
Current Assets	21459	21459
Fixed Assets	56024	56024
Intangibles	20996	20996
Total Assets	112402	112402
Payables	9349	9349
Short-Term Debt	1064	1064
Current Liabilities	11795	11795
Long-Term Debt	14156	14156
Total Liabilities	54069	54069
Total Equity	58333	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	-27.5	Total Return %
21.8	27.9	17.4	0.5	53.1	6.8	96.3	-38.9	147.6	21.9	-22.5	+/- Market
17.7	9.5	-51.4	-26.7	12.1	-0.7	29.1	-25.2	71.5	2.8	-3.3	+/- Industry
0.1	2.9	2.7	2.2	1.8	1.5	1.1	6.8	1.3	1.2	2.3	Dividend Yield %
41679	31102	43570	46663	71550	81024	160466	32473	115009	140795	100969	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
8152	8443	9228	11799	19033	22465	29700	54264	41825	56576	61088	Revenue USD Mil
55.3	50.7	47.1	45.3	56.7	68.6	78.0	68.3	19.1	35.2	38.0	Gross Margin %
1505	777	1404	2296	8145	8830	8403	10194	5920	19694	22727	Oper Income USD Mil
18.5	9.2	15.2	19.5	42.8	39.3	28.3	18.8	14.2	34.8	37.2	Operating Margin %
1079	651	1508	2813	5215	7438	7312	3676	4872	14324	16066	Net Income USD Mil
1.21	0.42	1.00	2.03	3.81	5.56	5.66	2.85	2.75	7.26	8.17	Earnings Per Share USD
0.02	0.57	0.76	0.66	0.84	0.82	1.16	1.52	0.68	0.88	1.07	Dividends USD
892	1543	1503	1386	1368	1339	1291	1334	1770	1973	1967	Shares Mil
—	4.77	6.41	8.04	9.55	11.95	16.21	14.13	20.52	29.69	31.99	Book Value Per Share USD
2450	2720	2292	3368	6943	7803	8491	14883	9212	18277	19758	Oper Cash Flow USD Mil
-1430	-1433	-1757	-2357	-2552	-3992	-5000	-8574	-5388	-4591	-7908	Cap Spending USD Mil
1020	1287	535	1011	4391	3811	3491	6309	3824	13686	11850	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	15.0	Return on Assets %
14.9	8.9	17.2	24.9	37.9	44.8	34.0	16.2	15.1	28.0	29.6	Return on Equity %
13.2	7.7	16.3	23.8	27.4	33.1	24.6	6.8	11.6	25.3	26.3	Net Margin %
0.42	0.42	0.42	0.47	0.69	0.70	0.44	0.57	0.45	0.54	0.57	Asset Turnover
2.7	2.7	2.4	2.0	2.0	1.9	4.1	4.3	2.2	1.9	2.0	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	0.28	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	6.3	Price/Earnings
—	—	—	—	—	—	—	—	—	0.6	0.5	P/E vs. Market
2.1	3.6	4.5	3.5	3.3	3.2	4.6	0.6	2.3	2.5	1.6	Price/Sales
—	4.2	4.3	3.7	4.8	4.4	6.5	1.6	2.6	2.4	1.6	Price/Book
7.1	11.3	18.3	12.3	9.1	9.2	16.0	2.0	10.3	7.7	5.1	Price/Cash Flow

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	6.3	12.4	6.6	13.3
Forward P/E	—	—	—	12.8
Price/Cash Flow	5.1	9.0	5.9	6.8
Price/Free Cash Flow	8.5	19.5	14.8	15.8
Dividend Yield %	2.3	—	2.5	2.1
Price/Book	1.6	3.5	2.3	1.7
Price/Sales	1.6	2.6	2.3	1.1
PEG Ratio	—	—	—	1.6

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	100969	61088	6.3	29.6
BHP Billiton Ltd	201027	71739	8.8	44.9
Freeport-McMoRan Cop	34152	22278	6.1	44.7

Major Fund Holders

	% of shares
	—
	—
	—

*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

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."