RIO TINTO

"KEEPING THE WORLD MOVING"

ST. JOHN'S UNIVERSITY
ASSET MANAGEMENT
SAGAR MEHTA

Company Highlights:

Rio Tinto is a top-tier global miner along with BHP Billiton, Brazil's CVRD, and U.K.-based Anglo American. A world-class asset base and capable management make Rio one of the few miners to earn more than its cost of capital through the commodity cycle. Geographic and product diversification give Rio 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, although operations span six continents.

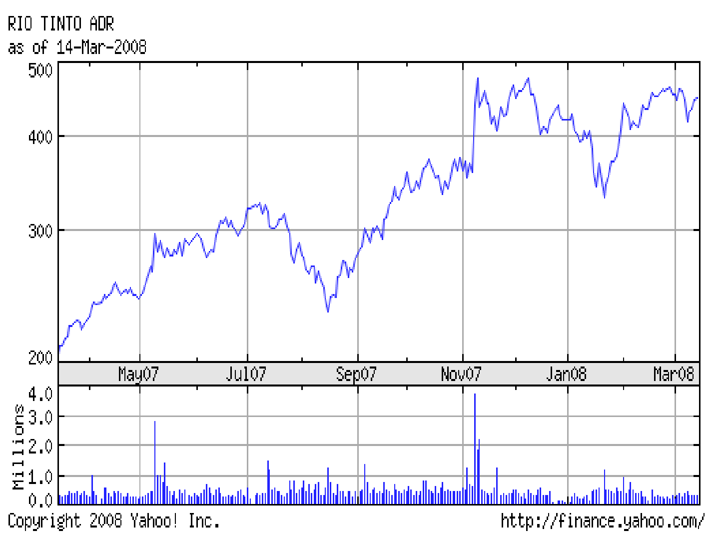
Through selective acquisitions and grassroots exploration, Rio has assembled a large portfolio of long-lived, low-cost assets. Operations include world-class hubs in aluminum, coal, copper, diamonds, gold, iron ore, industrial minerals, and uranium. This competitive resource base sets Rio apart from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

Rio's operating practices are geared toward creating long-term economic value, since the company constantly seeks efficiency improvements. 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. The strategic partnership with Ivanhoe Mines to develop its Oyu Tolgoi copper and gold deposit further enhances Rio's portfolio. Oyu Tolgoi is the largest undeveloped copper deposit in the world. The Mongolian government's completion of a draft investment agreement in June moves the project a step closer to finalization.

Rio has limited pricing power over most of its products. The notable exception is in iron ore, where, long with BHP and CVRD, 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 ascribe a narrow economic moat to Rio, given the firm's large, low-cost, and nonreplicable operations. The lack of comparable mega-deposits and increasingly prohibitive capital costs are barriers to entry.

Growth:

Rio has increased production of most commodities significantly since 2001 and has numerous development projects lined up. This, along with rising commodity prices, has resulted in revenue increasing from \$11.4 billion to \$25.4 billion in 2006.



Profitability:

Diversification and low costs limit volatility, but nonetheless, margins rise and fall with commodity markets. Operating margins could fall below 2006's 40% by 2010 if commodity prices pullback as expected.

Financial Health:

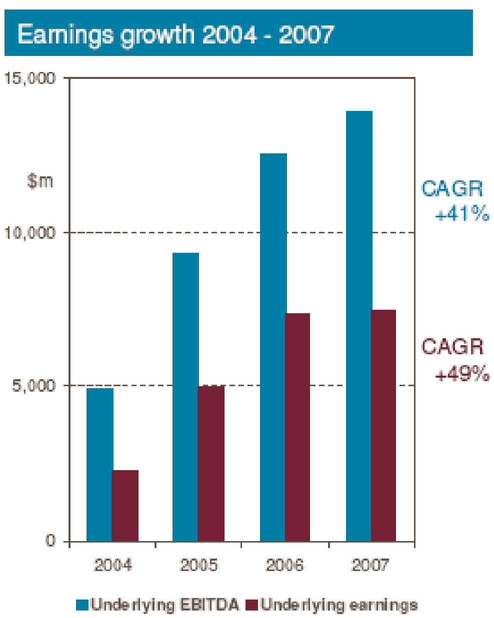
The Company is on strong financial footing. For the past three years, EBITDA has covered interest expense 54 times, and net debt/equity has averaged around 18%. Tax-effective buybacks have been common, as Rio seeks to make use of boom time cash flows.

Recommendation:

The Graduate portfolio holds 150 shares of Rio Tinto (RTP) which is around 6.5% of the total portfolio. The stock trades at around $ 410.00 and was bought at $ 216.97. The class voted on selling 75 shares of Rio Tinto at market price. This decision is based on the fact that we had a great run in the stock price of RTP and we need to book some profits. The proceeds from the sale would be almost equal to our initial investment.

From my analysis of Rio Tinto, I conclude that the company has a stable growth potential in the near future assuming commodity prices hold. The market outlook for Rio looks positive given the strong growth in Chinese and Indian economy. The 2007 annual results reflect this growth potential. Some of the highlights that call for attention are stated below.

- Record underlying EBITDA of US$ 13,920 million, 11 per cent above 2006.
- Cash flow from operations up 15 per cent to a record of US$12,569 million.
- Annual production records set for iron ore, bauxite, and aluminum, refined gold and refined copper, on a like for like basis.
- Alcan acquisition successfully completed and Alcan’s results included with effect from 24 October 2007.
- Ordinary dividend for the 2007 year increased 31 per cent to 136 US cents, with a further commitment to increase the 2008 and 2009 dividends by at least 20 per cent in each year.



Copper

$m	2006	2007	% change
EBITDA	5,118	5,809	+14%
Earnings	3,538	3,479	-2%

Iron Ore

$m	2006	2007	% change
EBITDA	3,936	4,617	+17%
Earnings	2,251	2,651	+18%

Aluminium

$m	2006	2007	% change
EBITDA**	1,365	1,701	+25%
Earnings**	746	1,097	+47%