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Investment Summary

We are initiating coverage on Rio Tinto plc with a buy recommendation and a 12-month price target of $267.60. Rio Tinto can be considered the "GE" of mining, in terms of its product knowledge, differentiation, growth, and experience. Except for a decline in copper production due to a strike at one of its major mines, Rio's shipment volumes have been outstanding. What's more, we are now looking for management to sustain recent momentum by leveraging the Company's leading market share, diverse metals mix, and cost controls.

Excellent Operational Performance

In 2005, Rio Tinto had good performance with underlying earnings of $4.9 billion. During the first half of 2006 the world economy grew providing ongoing momentum for commodity demand. In 2006, Rio Tinto had underlying earnings of $3.75 billion, 80% above the corresponding period in 2005. Cash flow from operations was $5.2 billion, 52% higher than that of the first half of 2005.

Rationale

Our recommendation on Rio Tinto stock is also based on forecasts for demand, global expansion, metals prices, management initiatives, and leading market share.

Positive Demand Outlook

Rio Tinto has a diverse portfolio of commodities and markets, which have varying responses to the economic cycle. The OECD leading indicators suggest moderating growth for developed countries generally in the future. However, the outlooks for Europe and Japan are more positive than for the United States. At the same time the Chinese authorities are putting measures in place to reduce the risk of potential future economic overheating following very strong growth during the first half in 2006. On balance, some moderation in global growth can be expected in the future with the risks relating to the pace of slowdown in the US economy.

According to the positive demand with constrictions supply, prices for major products were significantly above those experienced. Compared 2006 with the first half of 2005 average, copper prices were 79 per cent higher and average aluminium prices 37 per cent higher. The strength of the global iron ore market was reflected in the 19 per cent increase in the benchmark price. The seaborne thermal and coking coal markets were also strong.

High price and positive demand lead the industry step in stable growth. With high quality products of Rio Tinto, we believe its profit will continue growth in the future.

Continued Global Expansion

Continuing investment in the growth of the business was reflected in record captial expenditure of US$1.8 billion in the first half of 2006. The major infrastructure and mine expansions are in iron ore operations. At the beginning of 2005, it had investment of US$1.3 billion already under way for the expansion of production and transportation capacity in the Pilbara. Rio Tinto committed another US$290 million to expanding three mines, followed by a further US$1.35 billion for additional port capacity and further mine expansions.

Other significant development projects were progressed, including the titanium dioxide project in Madagascar, the Cortez Hills gold deposit in the US and the Argyle underground diamond mine in Australia.

Large world class orebodies give mineral industry options to expand capacity in line with demand. Continuing expansion can reduce costs by the large scale and lower risk of regional changeable economy.

Metals Prices

Like the basic formula for GDP (GDP = P times Q), Rio Tintos earning's will either increase with an increase in 'Q', or an increase in 'P', with the former under the company's direct control. Rio's management is making the necessary moves to increase 'Q', including:

- Rio Tinto is currently the world's second-biggest exporter of iron ore after Brazil's Cia. Vale do Rio Doce and is currently building a multibillion dollar expansion of its Western Australian iron ore operations.

- Rio Tinto has developed a revolutionary method of producing pig iron for steel making Known as HIsmelt, the new technology has taken 25 years and $1 billion to develop, and could replace high-energy use blast furnaces around the world

- Rio Tinto recently completed a deal that will allow the Company to take up to a 40 percent stake in Ivanhoe, the world's largest undeveloped copper-gold resource, bringing its world class operating and technical capability to the Oyu Tolgoi project.

Consensus viewpoints across the board suggest an increase in the 'P' part of the equation is more likely to occur including:

- At a recent meeting of The International Council on Mining and Metals (ICMM), a forum comprising the chief executives of the world's 15 largest mining companies, most members viewed the current commodity price cycle as having enough momentum to last the long-term.

- Citigroup Inc. said the "super cycle" in metals it forecast more than 18 months ago is still intact and will keep prices for copper, zinc and nickel above historical averages. The bank raised metals forecasts for 2006 through 2010 "based on persistent tight fundamentals," Sydney-based Citigroup analysts said yesterday in an e-mailed report.

- Longer term, S&P is positive on secular demand for copper and other base metals. In their view, the industrialization of China and India will lead to greater demand. At the same time, S&P believes production of copper will increase less rapidly than demand, as output at existing mines is exhausted and fewer new mines come into production.

- We agree with Rio in that strong global demand for iron ore, the steel-making ingredient, and Rio's cash cow, could help raise prices next year, making it the fifth consecutive year of gains.

Management Initiatives

A large number of mergers and acquisitions in the natural resources space is set to continue, reaping rewards for investors. This could only fuel price increases, while base metal inventories, which are at low levels, should support metal prices. Additionally, on October 27th, 2006, Rio Tinto said that it intends to raise its capital management program to $7 billion, from a previous level of $4 billion. Additional cash return will be made through the buyback of shares by the end of 2007. In other words, prices may increase from consolidation activity, and Rio's management is creating shareholder value in 2007 by adjusting its balance sheet to reflect a lower amount of common shares outstanding.

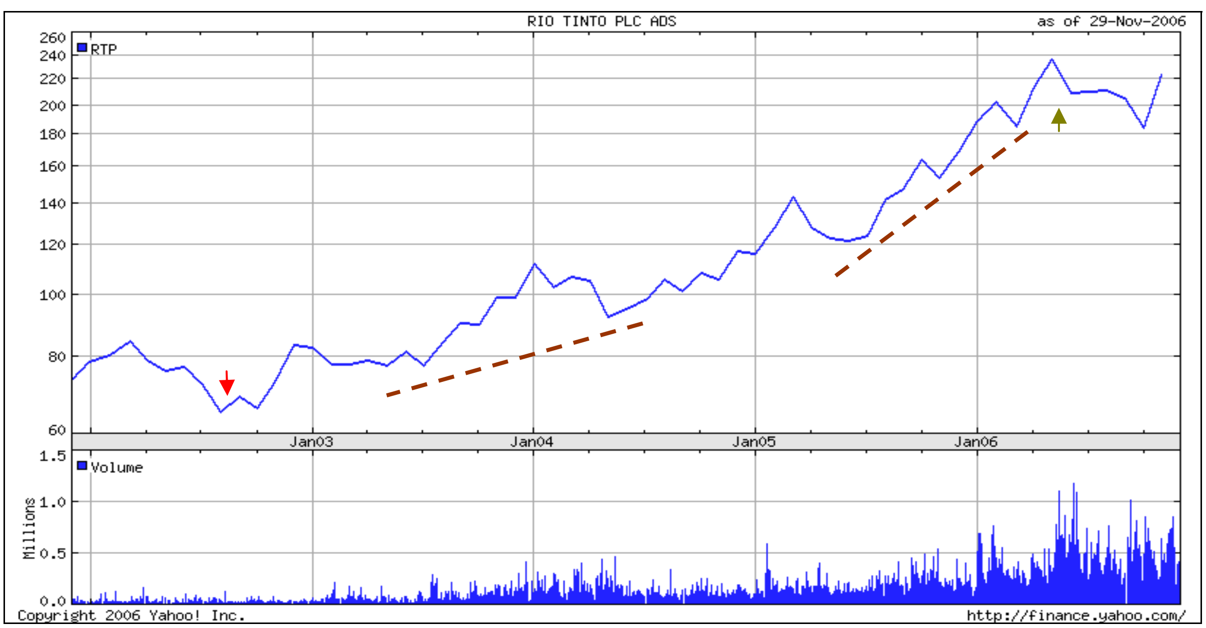
Leading Market Share

Rio Tinto is a major producer in all the metals and minerals markets in which it operates. These include, iron ore, aluminum, diamonds, copper, energy, industrial minerals, and technology. Rio is generally among the top five global producers by volume and has market shares for different commodities ranging from five per cent to 40 per cent. The competitive arena is spread across the globe, including eastern Europe, Russia and China. The benefits of a diverse portfolio of metals is that it positions the company better in the face of consolidating miners and it offers protection from downturns in any single category.

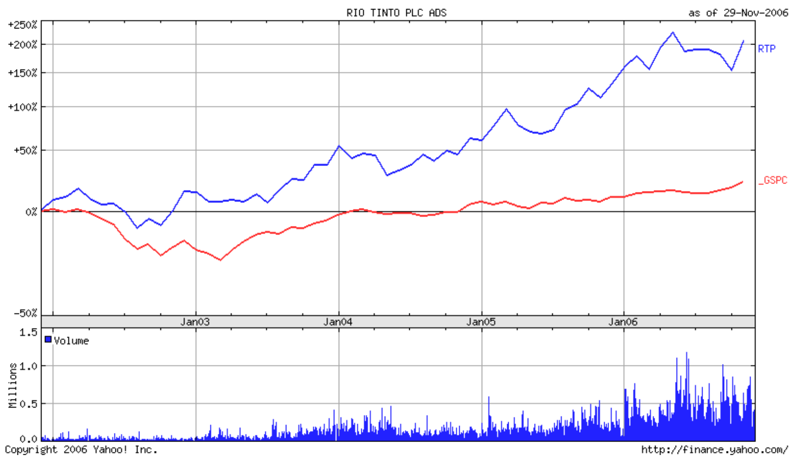
The recent moves by management will bolster the already strong growth profile of Rio Tinto. Overall, we feel that the strengths of Rio Tinto, together with rising prices for commodities in the long-term, will drive further appreciation in stock price to new 52-week highs.

Valuation

Stock Performance



Duration	**2001 Jan – 2006 Nov**
Lowest Point	105.97
Volume	618.30 K Shares
Highest Point	242.90
Volume	1569.70 K Shares
As of Nov 29 Stock Price	**211.66**
Market Capital	70.60 Billion
Day's Range	208.39 - 212.30



Compare to S&P 500
Take 2001 Jan as benchmark
RTP Stock Price Return:
200%
S&P 500 Index Return:
22%

Stock Performance	2001	2002	2003	2004	2005
Average Price per share	$61.06	$66.36	$77.94	$97.56	$134.33
Max Price per share	$71.22	$73.93	$102.77	$113.09	$177.84
Min Price per share	$47.20	$53.99	$64.68	$80.84	$105.68
Trading Range	$24.02	$19.94	$38.09	$32.25	$72.16
Return on Investment (YOY)	15.69%	5.75%	40.42%	9.16%	60.72%

Rio Tinto's share price performance, on a YOY basis, has outperformed the S&P 500 considerably over the past 5 years. What's more, Rio Tinto has a YTD total return, including dividends, of 20.90% and has outperformed the S&P 500 index by 9.78%. Rio's return is also competitive when compared to industry index levels. The sub-industry S&P steel index has a YTD through November 10th return of 52.2%. Through November 3rd, YTD returns for the S&P Metals & Mining Index was up 34.1%, while the S&P Materials Inde10.3% rise in the S&P Materials Index. Rio's YTD returns to November were at similar levels to those in December.

We anticipate that with the Fed pausing in its interest rate hikes, global liquidity at record levels, and economic expansion at high levels internationally, world output will remain robust. Furthermore, we feel that while their will be some softening in commodities pricing levels in the short-term, in the long-term, growth in the U.S., BRIC, and EMEA economies will force commodities prices to even higher levels than experienced in 2006.

Relative Valuation

Figure: Valuation, in Millions of USD, provided by Google Finance Data

Company	Ticker	Market Capitalization	Enterprise Value (EV)	Sales	EV/Sales	EBIT	EV/EBIT	EBITDA	EV/EBITDA
Rio Tinto	RTP	73,874.34	75,468.34	19,033	3.97	7,312.00	10.32	8,646.00	8.73
Companhia Vale do Rio Doce	RIO	71,210.00	77,266.00	12,792	6.04	5,420.00	14.26	5,420.00	14.26
Mittal Steel Company N.V.	MT	30,130.00	36,403.00	28,132	1.29	4,703.00	7.74	5,532.00	6.58
Precision Castparts Corp.	PCP	10,440.00	11,056.70	3,546	3.12	512.90	21.56	512.90	21.56
Mean		46,413.59	50,048.51	15,875.85	3.60	4,486.98	13.47	5,027.73	12.78
Median		50,670.00	55,935.67	15,912.50	3.54	5,061.50	12.29	5,476.00	11.49
High		73,874.34	77,266.00	28,132.00	6.04	7,312.00	21.56	8,646.00	21.56
Low		10,440.00	11,056.70	3,546.40	1.29	512.90	7.74	512.90	6.58

Enterprise Value = Market Capitalization – Cash and cash equivalent + Minority Interest + Preferred Stock + Debt

Company	Ticker	EPS	P/E	Beta	P/B	Div/Yield	Div/Yield 5 year	Pay out
Rio Tinto	RTP	15.24	14.6	1.05	4.91	1.46%	0.03%	37.88%
Companhia Vale do Rio Doce	RIO	2.56	11.51	1.44	5.08	0.05%	0.03%	0.00%
Mittal Steel Company N.V.	MT	4.79	8.82	1.60	2.55	1.21%	0.03%	10.98%
Precision Castparts Corp.	PCP	3.39	22.75	1.18	4.25	0.16%	0.00%	3.62%
Mean		6.50	14.42	1.32	4.20	0.72%	0.02%	13.12%
Median		4.09	13.06	1.31	4.58	0.69%	0.03%	7.30%
High		15.24	22.75	1.60	5.08	1.46%	0.03%	37.88%
Low		2.56	8.82	1.05	2.55	0.05%	0.00%	0.00%

Rio Tinto has had outstanding stock price performance over the last four years. This is due to superior operating earnings and payout ratio over the time period. Rio is undervalued when comparing the EPS, EV/EBTIDA, Beta, Payout Ratio, and EV/EBIT ratios to the major competitor median. Rio is overvalued when comparing the P/B, P/E, and EV/Sales ratio to the industry median. Note that Rio's EPS blows out every major competitor. At the same time, Rio has the most stable beta when compared to its major competitors.

Present Value of Shares

Rio Tinto Share Price Projections*

Valuation	2000	2001	2002	2003	2004	2005	MRQ
Price per share	$59.53	$67.19	$70.64	$102.77	$112.92	$177.35	$209.71
Number Shares Out.	343.25	343.75	344.25	344.5	344.75	341.03	346
Operating Cash F.	$2,595.00	$2,450.00	$2,720.00	$2,292.00	$3,368.00	$6,943.00	$3,416.00
Sales	$8,034.00	$8,281.00	$8,546.00	$9,347.00	$11,958.00	$19,275.00	$10,621.00
Net Income	$1,507.00	$1,079.00	$651.00	$1,508.00	$2,813.00	$5,215.00	$3,796.00
CFPS	7.56	7.13	7.90	6.65	9.77	20.36	9.87
SPS	23.41	24.09	24.82	27.13	34.69	56.52	30.70
EPS	4.39	3.14	1.89	4.38	8.16	15.29	10.97
P/E	13.56	21.41	37.35	23.48	13.84	11.60	19.11
P/Oper. CF	7.87	9.43	8.94	15.45	11.56	8.71	21.24
P/S	2.54	2.79	2.85	3.79	3.26	3.14	6.83
Growth Rate Calculations		**2001**	**2002**	**2003**	**2004**	**2005**	
Change in CFPS		-5.72%	10.86%	-15.80%	46.84%	108.39%	
Change in SPS		2.92%	3.05%	9.29%	27.84%	62.95%	
Change in EPS		-28.50%	-39.75%	131.48%	86.40%	87.41%	
Growth Rates							
5-yr. Growth rate CFPS	28.91%						
5-yr. Growth rate SPS	10.78%						
5-yr. Growth rate EPS	47.41%						
PV of Share Price							
Estimated Price P/E	$309.13						
Estimated Price P/S	$232.31						
Estimated Price P/Oper. CF	$270.35						
Estimated Price (Analyst Consensus)	$264.15						
*MRQ data from Reuters, Yearly Price Data from Yahoo!, Yearly Dollar Data from WRDS							

Average Estimated Price **$267.60**

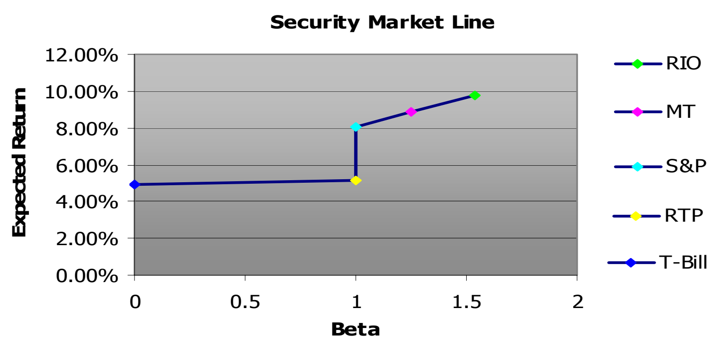
In preparing our valuation of Rio, it was obvious that blow out earnings growth would prevent the use of custom valuations such as the DDM. Therefore, we decided to use growth rates in Cash Flow, Sales and Earnings. We are confident that our 12-month price target based on 5-yr. calculated growth rates in Cash Flow per share, Sales per share, and Earnings per share, closely approximates the current intrinsic value of the firm. The price of $267.60 was obtained by using data available from Reuters, and taking the geometric mean of the estimated price based on our models and a Street.com analyst consensus estimate. Our conclusion, that Rio Tinto is undervalued based on our models, will be further supported by additional qualitative and quantitative analysis throughout the report.

CAPM

The Capital Asset Pricing Model shown below depicts the relationship of a company's Beta and how it affects its rate of return. For our purposes, comparing the affects of market risk on return rate was essential to illustrate the stability and strength of Acer stocks. In the chart below, we have compared Acer with its leading competitors, Mittal Steel (MT), Companhia Vale do Rio Doce (RIO).

Capital Asset Pricing Model					
	T-Bill	RTP	S&P	MT	RIO
Beta	0	1	1	1.25	1.54
Expected Return	4.91%	5.16%	8.05%	8.84%	9.75%

First to notice are the differences in the securities risk as denoted by their corresponding Betas. Companhia Vale do Rio Doce possesses the highest risk and yet the highest return rate of 4.84% above the risk free rate. Second in terms of risk is Mittal Steel who possesses a significant return rate of 3.93% above the risk free rate. Rio Tinto has the lowest risk and therefore the safest investment with a beta of one and a total return of 5.16%. Both terms considered, Rio Tinto proves to have a desirable rate of return without having to compromise its safety as an investment.



From the chart above, we can easily see how well coordinated are Rio Tinto and the S&P 500. Sharing similar Betas and return rates as the leading index is a good indication of stock's quality and value. Many times, securities which are well coordinated with leading indexes are considered to have safe or defensive qualities. In the case of Rio Tinto, we can conclude that it indeed exhibits the said qualities making it a better investment compared to its competitors.

TREND ANALYSIS

SHORT-TERM LIQUIDITY	2001	2002	2003	2004	2005
Current Ratio	0.79	0.82	1.13	1.49	1.56
Quick Ratio	0.54	0.54	0.72	0.89	1.14
Accounts Receivable Turnover	5.11	5.24	5.71	6.66	9.14
Days' Sales in Receivables	70.49	68.73	63.09	54.07	39.38
Working Capital	-1,249.00	-968.00	557.00	1,658.00	2,695.00
Cash Provided by Operations to Average Current Liabilities	3.17	4.13	2.97	3.53	7.81

1. **Current Ratio** - If the current assets of a company are more than twice the current liabilities, then that company is generally considered to have good short-term financial strength. Rio Tinto's **trend is positive**, indicating a higher degree of short-term

financial strength. According to Reuters most recent data (available from Table RV), Rio's current ratio is also less than that of the Industry, Sector, and S&P 500. Rio's current ratio is also below 2.0.

2. **Quick Ratio -** Quick ratio, often referred to as acid test ratio**,** is preferred to be greater than 1. Again, Rio Tinto's **trend is positive**, indicating a higher degree of short-term financial strength. According to Reuters most recent data (available from Table RV), Rio's quick ratio is also less than that of the Industry, Sector, and S&P 500. Additionally, except for 2005, Rio's quick ratio is also below 1.0.

3. **Days' Sales in Receivables** - This number helps determine whether a technology company is attempting to disguise weakness in its sales. Rio's days' sales in receivables **trend is negative**, indicating Rio is receiving cash much faster than it did in each previous year.

4. **Working Capital** - Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth. Acer's working capital **trend is positive**, indicating the company should have ample resources for growth opportunities.

ASSET UTILIZATION ANALYSIS	2001	2002	2003	2004	2005
Sales to Working Capital	6.63	8.83	16.78	7.21	7.15
Sales to Fixed Assets	0.40	0.37	0.33	0.38	0.59
Sales to Other Assets	N/A	N/A	N/A	N/A	16.49
Sales to Total Assets	0.42	0.42	0.39	0.47	0.65

Rio's 5-yr. sales growth rate is much greater than the industry, sector, and S&P 500 according to Reuters most recent data (see table MV). It is important to view sales in relation to certain balance sheet items, however, and we have listed them above.

1. **Sales to Working Capital** - The sales to working capital ratio indicates how successful Rio is using working capital to generate sales. Rio's sales to working capital **trend is volatile, but generally steady**, indicating room for improvement in this category.

2. **Sales to Fixed Assets** - The sales to fixed assets ratio indicates how successful Rio is using fixed assets to generate sales. Acer's sales to fixed assets **trend is ambiguous but recently increasing.** As will be discussed in the financial analysis portion of the report, Rio is undertaking various projects in order to increase its reserves of raw materials. The innovations, expansion, and development of mines and mining procedures will certainly increase this particular measure of assets in future years.

3. **Sales to Other Assets** - The sales to other assets ratio indicates how the usage of other assets drives sales. Rio only reported other assets on the most recent annual report available. As such, there is not a trend analysis available.

4. **Sales to Total Assets** - The sales to total assets ratio indicates how the usage of all assets drives sales. Rio's sales to total assets **trend is generally positive.** Management at Rio Tinto is effectively increasing sales when compared to total assets.

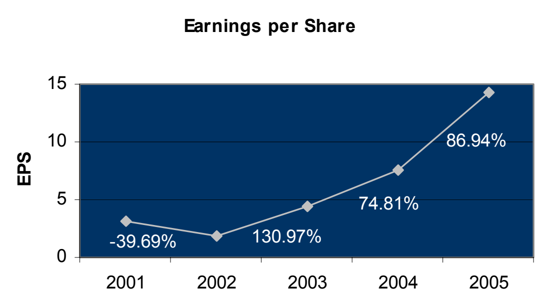
DIVIDENDS	2001	2002	2003	2004	2005
Dividend Yield	3.81%	4.14%	3.08%	2.69%	2.47%
Payout Ratio	74.52%	145.49%	55.17%	32.21%	21.88%
Dividends per share	2.33	2.75	2.42	2.63	3.33

5-year Average Dividend Yield	3.24%

Rio Tinto has a 5 year average dividend yield of 3.24% which is quite high though arguably typical for an industrial materials company. The relatively high dividend yield indicates that the company is generating a considerable amount of earnings to be able to afford paying its shareholders a consistently high dividend. As we shall see in the following analysis of Earnings per Share, Rio Tinto is indeed achieving consistently strong earnings with consistent growth trends.

Earnings per Share

	2001	2002	2003	2004	2005	Average	Industry
EPS	3.137	1.892	4.37	7.639	14.28	6.26	



A company's EPS is a measure indicating the amount of net income earned for each hare of outstanding common stock. From the above Earnings per Share data, it is evident that amount of earnings which Rio Tinto has been achieving has been steadily growing since 2002.

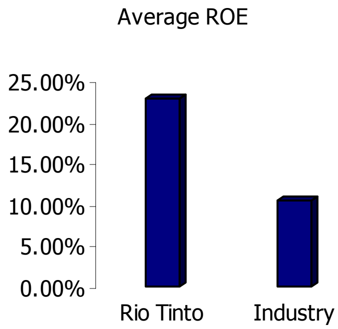
The adjacent chart illustrates the upward growth trend of Rio Tinto's EPS as well as its percentage change form year to year. It is more evidence of the quality and consistency of earnings which Rio Tinto achieves.

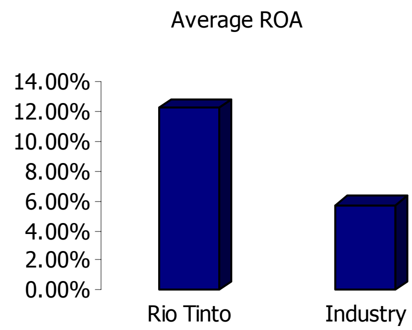
Return on Equity & Return on Assets

	2001	2002	2003	2004	2005	5 yr AVG	Industry
ROE	15.03%	8.89%	17.23%	24.87%	37.88%	20.78%	10.53
ROA	8.32%	4.35%	8.08%	11.95%	20.38%	10.62%	5.72

The first thing to be noticed from the data above is the how the ROE of Rio Tinto consistently is greater than its ROA. This a good sign that the company is using leverage by borrowing its funds at one rate and investing them at a higher rate.

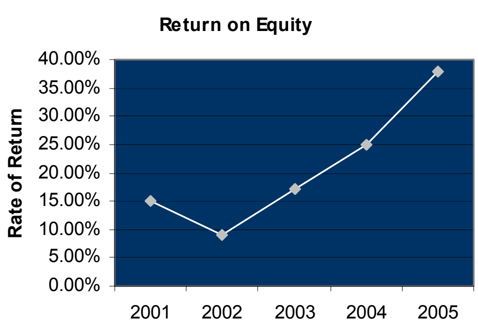
Upon further examination of the above ratios, one must take notice of the consistent pattern of growth experienced by both Rio Tinto and the industry. Both seem to be moving at a similarly steady rate indicating the health not just of Rio Tinto, but also of the industry to which it belongs.





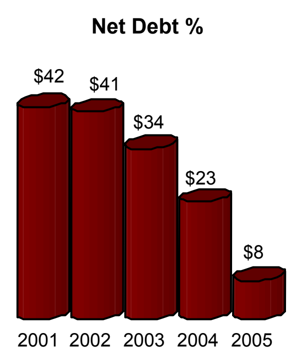
Above are two graphs depicting the differences in ROA and ROE of both Rio Tinto and the industry. The data denote the five year average for each ratio. Again we notice the consistent and parallel path which Rio Tinto takes and which the industry attempts to follow. We can conclude that the positive analysis of Rio Tinto's ratios is also reinforced by the equally positive performance of the industry.

The chart to the left depicts the trend in Return on Equity for the years of 2001 – 2005. When comparing the ROE of Rio Tinto to that of the industry, it is evident that Rio Tinto has a much healthier return. This consistent increase in ROE leads us to believe that Rio Tinto has a competitive advantage over its rivals.



[1]

When evaluating the ROE, it is important to take into consideration the amount of debt which the company has assumed. Too much borrowing can reduce a company's book value which will then artificially increase the ROE. In the case of Rio Tinto, the level of debt has decreased throughout the past five years which indicates that the ROE is an accurate and healthy statistic.



Rio Tinto's Return on Assets ratio is also substantially higher than the industry average indicating that management is well utilizing its assets to generate net income.

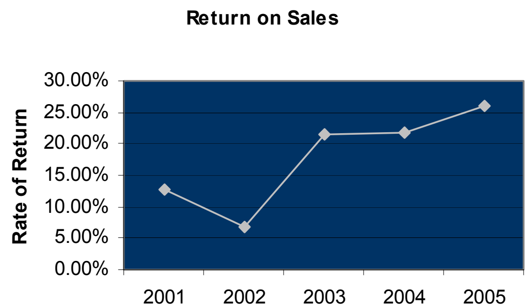
[1] 2005 Rio Tinto Annual Report

Return on Sales

	2001	2002	2003	2004	2005	Industry
ROS	12.73%	6.88%	21.42%	21.79%	26.10%	

The above data details the Return on Sales, also known as the firm’s profit margin, for the past 5 years. This ratio is used to identify how much of the firm’s profit is being generated from each dollar of sales. From the graph below, we can better visualize the trend which has occurred for Rio Tinto.

From the adjacent graph, we can observe a steadily increasing ROS since 2002 which indicates an increased efficiency of management’s utilization of sales in order to produce profits.



CAPITAL STRUCTURE & SOLVENCY	2001	2002	2003	2004	2005
Total Debt to Equity	1.50	1.46	1.16	0.86	0.79
Total Debt Ratio	0.55	0.54	0.48	0.42	0.40
L-T Debt to Shareholders' Equity	0.36	0.36	0.38	0.27	0.19
Earnings to Fixed Charges Ratio	2.16	1.75	4.01	8.99	16.45
Cash Flow to Fixed Charges Ratio	0.08	-0.35	-0.22	0.57	6.44
Financial Leverage Index	4.05	4.52	2.91	2.22	2.08

1. **Total Debt to Equity** - Total debt to equity is a measure of a company's financial leverage. Investing in a company with a higher debt/equity ratio may be riskier, especially in times of rising interest rates, due to the additional interest that has to be paid out for the debt. Rio’s total debt to equity ratio **trend is negative.** Furthermore, Rio’s total debt to equity ratio for the most recent data available is less than the industry, sector, and S&P 500 (see Table RV).

2. **Total Debt Ratio -** This will tell you how much the company relies on debt to finance assets. In general, the lower the company's reliance on debt for asset formation, the less risky the company is since excessive debt can lead to a very heavy interest and principal repayment burden. However, when a company chooses to forgo debt and rely largely on equity, they are also giving up the tax reduction effect of interest payments. Thus, a company will have to consider both risk and tax issues when deciding on an optimal debt ratio. Rio’s total debt ratio **trend is negative**, indicating a lower amount of debt in the capital structure.

3. **L-T Debt to Shareholders’ Equity** - A capitalization ratio comparing long-term debt to shareholders' equity. Acer’s long-term debt to equity **trend is generally negative**, and is currently at an optimal level when compared to the industry, sector, and overall market (see table RV).

4. **Earnings to Fixed Charges** - The earnings to fixed charges ratio measures the firm's ability to service its fixed charges. Rio's earnings to fixed charges **trend is positive.** This indicates that Rio has increased its ability to pay its fixed charges during the time period.

5. **Financial Leverage Index** - The financial leverage index measures the efficiency of debt utilization. Acer's financial leverage index trend is negative. This indicates that Rio can improve its utilization of debt leverage.

OPERATING PERFORMANCE	2001	2002	2003	2004	2005
Gross Profit Margin	38.01%	33.50%	26.77%	29.14%	41.15%
Operating Profit Margin	29.59%	31.83%	24.52%	28.17%	36.02%
Net Profit Margin	13.03%	7.62%	16.13%	23.52%	27.06%

1. **Gross Profit Margin** - Gross profit margin is equal to what remains from sales after a company pays out the cost of goods sold, often expressed as a percentage. Rio's gross profit margin **trend was negative, but is now positive.** Most recent data available from Reuters (see table RV) indicates that Rio's 5-Yr. Average gross margin is significantly leads that of the industry, sector, and S&P 500.

2. **Operating Profit Margin** - Operating profit margin indicates how effective a company is at controlling the costs and expenses associated with their normal business operations. Rios's operating profit margin **trend is generally positive**. Most recent data available from Reuters (see table RV) indicates that Rio's 5-Yr. Average operating margin significantly leads that of the industry, sector, and S&P 500.

3. **Net Profit Margin** - This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions. However, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable. Rio's net profit margin **trend is positive.** Most recent data available from Reuters (see table RV) indicates that Acer's 5-Yr. Average net profit margin significantly leads that of the industry, sector, and S&P 500.

Table RV[2]

Valuation Ratios	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	11.11	12.47	19.25	20.66
Beta	0.98	1.54	1.2	1
Price to Sales (TTM)	3.52	2.37	1.83	2.93
Price to Book (MRQ)	4.91	4.33	3.61	3.93
Price to Tangible Book (MRQ)	5.2	4.75	5.99	7.2
Price to Cash Flow (TTM)	8.63	8.87	13.67	14.6
Price to Free Cash Flow (TTM)	42	21.81	35.46	32.17
% Owned Institutions	**6.32**	**49.59**	**39.36**	**68.4**
Dividends	**Company**	**Industry**	**Sector**	**S&P 500**

[2] Data obtained from Reuters

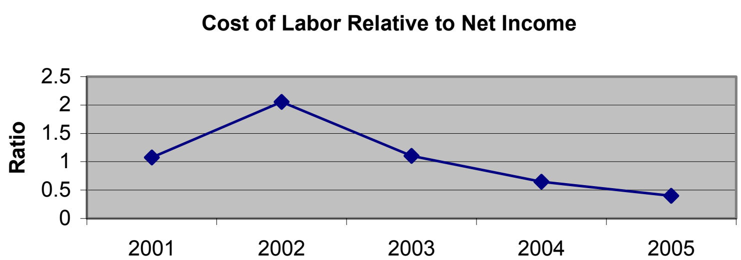
Dividend Yield	1.46	3.04	2.22	2.06
Dividend Yield - 5 Year Avg.	3.01	1.83	1.94	1.8
Dividend 5 Year Growth Rate	27	26.73	6.41	9.67
Payout Ratio (TTM)	37.88	46.44	31.08	28.06
Growth Rates	**Company**	**Industry**	**Sector**	**S&P 500**
Sales (MRQ) vs Qtr. 1 Yr. Ago	22.49	41.11	18.1	15.84
Sales (TTM) vs TTM 1 Yr. Ago	34.45	30.96	14.18	16.73
Sales - 5 Yr. Growth Rate	19.3	16.22	10.05	9.92
EPS (MRQ) vs Qtr. 1 Yr. Ago	78.58	90.95	35.24	23.68
EPS (TTM) vs TTM 1 Yr. Ago	80.94	41.75	27.39	23.95
EPS - 5 Yr. Growth Rate	33.23	48.02	17.84	15.83
Capital Spending - 5 Yr. Growth Rate	23.83	15.88	2.88	5.7
Profitability Ratios	**Company**	**Industry**	**Sector**	**S&P 500**
Gross Margin - 5 Yr. Avg.	77.02	28.39	26.88	44.84
EBITD Margin (TTM)	45.28	35.16	18.42	23.04
EBITD – 5 Yr. Avg.	31.12	22.11	14.92	20.83
Operating Margin (TTM)	38.79	30.48	13.92	20.27
Operating Margin – 5 Yr. Avg.	21.86	14.47	9.3	18.95
Pre-Tax Margin (TTM)	43.5	21.12	11.42	18.96
Pre-Tax Margin - 5 Yr. Avg.	28.65	12.23	7.56	17.15
Net Profit Margin (TTM)	34.33	20.68	9.2	13.68
Net Profit Margin – 5 Yr. Avg.	21	7.43	5.38	11.64
Effective Tax Rate (TTM)	21.08	30.4	28.66	30.54
Effective Tax Rate - 5 Yr. Avg.	26.72	51.87	33.25	31.85
Management Effectiveness	**Company**	**Industry**	**Sector**	**S&P 500**
Return On Assets (TTM)	24.89	19.92	8.51	8.31
Return On Assets - 5 Yr. Avg.	10.58	5.72	4.51	6.57
Return On Investment (TTM)	30.44	24.3	10.75	12.38
Return On Investment - 5 Yr. Avg.	14.02	7.06	5.67	10.1
Return On Equity (TTM)	48.89	31.26	18.29	20.36
Return On Equity - 5 Yr. Avg.	24.32	10.53	10.68	17.92
Financial Strength	**Company**	**Industry**	**Sector**	**S&P 500**
Quick Ratio (MRQ)	0.76	1.53	1.32	1.22
Current Ratio (MRQ)	1.17	2.33	2.15	1.73
LT Debt to Equity (MRQ)	0.11	0.25	0.69	0.58
Total Debt to Equity (MRQ)	0.26	0.34	0.79	0.73
Interest Coverage (TTM)	NM	26.24	10.64	14.80

Cost of Labor

When analyzing a labor intensive industry like materials, it is important to consider how a company is controlling labor costs. In the chart and graph below, it is clear that, when compared to net income, the cost of labor to Rio Tinto is decreasing.

LABOR COSTS	2001	2002	2003	2004	2005
Labor & Related Expense*	1,160.00	1,337.00	1,666.00	1,817.00	2,087.00
Labor to Net Income Ratio	1.08	2.05	1.10	0.65	0.40

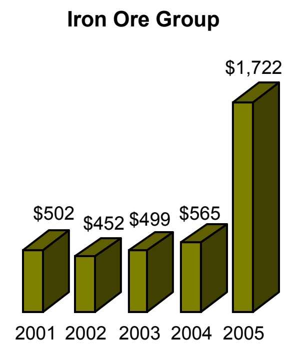
**Reuters Data*



Business Description

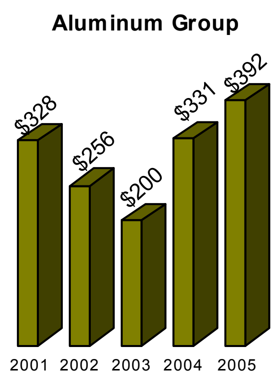
Rio Tinto is one of the world's largest mining and mineral resources companies. Made up of two subsidiaries, Rio Tinto Limited listed on the Australian Stock Exchange and Rio Tinto plc listed on the London Stock Exchange, the firms are managed as a single financial group with a unified advisory board.

Underlying/adjusted earnings contribution US$[3]

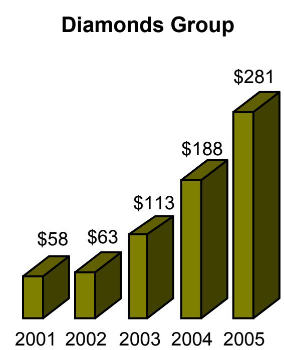


Rio Tinto functions as a mineral mining and refining company in the following commodities:

- **Iron Ore** – Rio Tinto has full ownership in Australian based Hamersley Iron. In Canada, Rio Tinto owns 53% of Robe River Iron Associates and 59% of Iron Ore Company. Also included in the Rio Tinto Iron Ore group is the company's 53% interest in Robe River Iron Assoc. located in Western Australia. By December 31, 2005, the Iron Ore group was responsible for 28% of Rio Tinto's operating assets.[4]

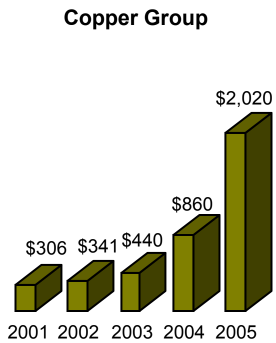


- **Aluminum** – Rio Tinto Aluminum is one of the world's leading suppliers of bauxite and aluminum. The increase in aluminum prices in 2005 and a weaker US dollar contributed to the group's reduction in earnings growth for the past year. Rio Tinto owns Australian based Comalco along with various refining plants throughout Australia and New Zealand.



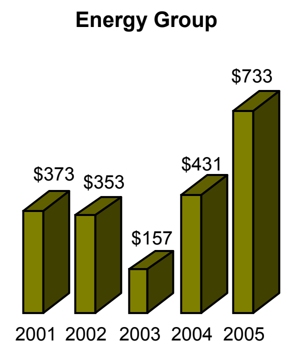
- **Diamonds** – Rio Tinto Diamond group focuses its operations on the mining and sales of rough natural diamonds. Rio Tinto excavates out of Australia's Argyle diamond mine which produces 90% of the world's pink diamonds. The company also owns and operates 60% of Canada's Diavik Diamond Mine and 78% interest in Zimbabwe's Murowa diamond mine.

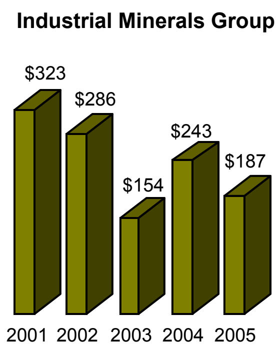
[3] Rio Tinto 2005 Annual Report
[4] Rio Tinto 2005 Annual Report



- **Copper** – Rio Tinto's Copper group not only mines copper but also gold and molybdenum which together, comprised 17% of the group's operating assets. the copper group excavatess and produces its materials from mines in Australia, Indonesia, South Africa, and the United States where it wholly owns Kennecott Utah Copper Corporation.

- **Energy** - Rio Tinto's energy sector includes thermal coal & uranium mining. Their coal production lies within the U.S. and Australia. The uranium portion includes Rossing Uranium located in Namibia and Energy Resources in Australia. The energy group leading the way for research in alternative uses for coal energy where it has given resource funds to the International Energy Agency Clean Coal Centre.





- **Industrial Minerals** – The Rio Tinto Industrial Minerals sector produces talc, borates, industrial salt, and titanium dioxide feedstock. Rio Tinto Borax, Luzenac talc and Dampier Salt will be combining their management and systems to form Rio Tinto Minerals beginning in 2006. Rio Tinto Iron & Titanium along with Rio Tinto Minerals will make up the Industrial Minerals product group in 2007.

- **Technology** – Rio Tinto manages its technological research and development in the areas of smelting and exploration.

It is important to note that Rio Tinto's activities are limited to the mining and production of minerals and energy materials and not to the trading of any such substances. The company does not engage in the sale of any materials not principally produced by the company or its subsidiaries.

Management Team

Just this past week, Rio Tinto appointed the former head its Copper and Exploration unit, Tom Albanese, as it new CEO. Mr. Albanese will be taking the place of Leigh Clifford who held the CEO position since 1999. Mr. Albanese's title will take effect on May 1, 2007.[5] As for Mr.Clifford, he will be returning to Australia to work for the International Council on Mining and Metals. He will also retain his position on the board of Barclays International.

The promotion of Tom Albanese has many analysts hopeful that more industry consolidation will take place under the new CEO.[6]

The current executives and their corresponding salaries are listed as follows (including L. Clifford):

Chief Executives:

Paul Skinner	
Chairman	$1,017,000
Leigh Clifford	
Chief Executive Officer	$1,492,000
Guy Elliot	
Finance Executive	$923,000

Product Group Chief Executives:

Tom Albanese	
Copper & Exploration	$730,000
Preston Chiaro	
Energy	$537,000
Oscar Groenveld	
Aluminum	$883,000
Keith Johnson	
Diamonds	$607,000
Andrew MacKenzie	
Industrial Minerals	$683,000
Sam Walsh	
Iron Ore	$807,000

Rio Tinto has set up an Executive Remuneration policy to properly attract and compensate executives for high level performance.

The Remuneration components are as follows:

Base salary
Short & Long Term Incentive Plans
Share Option Plan
Mining Companies Comparative Plan

[5] Reuters News Corp. Dec. 5, 2006
[6] Associated Press. "Tinto Names Tom Albanese as CEO". December 5,2006.

Industry Analysis

Economic Overview FY2005

World economic activity in 2005 grew by 4.3 per cent on a purchasing power parity basis compared with 5.1 per cent in 2004. This was led by the US and China which grew by 3.6 per cent and 9.5 per cent respectively. In Asia as a whole growth was 4.5 per cent while Japan grew by 2.5 per cent. Latin America grew by 4.1 per cent. European activity lagged showing growth of 1.6 per cent. Inflation generally remained low by historical standards in spite of the large rise in prices of oil and other commodities. This reflected fierce competition in the manufacturing sector and generally weak labour markets.

During 2005 China's growth continued to provide momentum to commodity demand offsetting more patchy demand conditions in some OECD countries. At the same time, with low stocks, production problems, increased input costs and heightened speculative activity in some commodities, the prices of most metals and minerals rose and remained well above the historical trend.

- The seaborne iron ore trade continued to grow strongly with China's iron ore imports nearly 32 per cent above their 2004 level. Price increases of 71.5 per cent during the year underlined the tightness of the market.

- The cash cost of copper reached new record highs of over US$2 per pound in December 2005. Over the year the average spot price was US$1.66 per pound. Speculative activity over the course of the year led to surges in spot prices as market participants scrambled occasionally to meet immediate needs.

- Coking coal prices more than doubled with significant increases in Asian demand. Prices for Powder River Basin coal also more than doubled over the year due to the general tightness of US energy markets and transport issues. Prices for seaborne thermal coal rose by over 20 per cent. Uranium prices also rose strongly during 2005.

- Aluminium prices rallied strongly throughout the second half of 2005 averaging 86 US cents per pound for the year as a whole. The renewed upward momentum in prices has been driven in part by fund buying on the expectation of tighter markets in 2006. Factors such as record high alumina prices, announcements of power related smelter shutdowns and a slowdown in Chinese exports all contributed to the increasingly positive market sentiment.

- Demand for industrial minerals such as borates and titanium minerals continued to benefit from solid US demand.

- Gold prices escalated in the latter half of the year and averaged US$444 per ounce for 2005 as a whole. Many less widely traded metals also benefited from much higher prices, notably molybdenum, which averaged US$31 per pound, a 25 year high.

Standard & Poor's on Steel

S&P has a negative fundamental outlook for the steel industry in 2007. Following higher sales and earnings in 2006's first three quarters, S&P anticipates a sequential decline in the 2006 fourth quarter, and lower sales and earnings for all of 2007 versus record high levels in 2006. S&P's negative view reflects the S&P forecast for slower economic growth in 2007, along with expectations for less robust demand from three key markets. In their view, slower economic growth will lead to a drop in demand for durable goods and result in lower steel shipments and prices compared with 2006. Despite expectations for lower sales and earnings in 2007, S&P anticipates that the industry will still achieve sufficient profits to generate enough free cash flow to increase dividends, buy back shares and make acquisitions. In 2005, the S&P Steel Index increased 23.8%, compared to a 3.8% gain for the S&P 1500. Year to date through November 10, the sub-industry index rose 52.2%, versus a 10.4% increase for the 1500. Longer term, S&P thinks the industry will benefit from greater pricing power stemming from further expected consolidation, a lower cost structure, and a resumption of the cyclical decline in the U.S. dollar.

Steel Industry Consolidation

Year-to-date, the commodity that produces the greatest revenue for Rio is Iron Ore (25%), the main ingredient for Steel. However, global steel production dropped last year and steel prices fell by about 30 per cent. Some producers have recorded losses or sought the protection of bankruptcy, and there is a widespread trend to preserve earnings through restructuring, cost cutting, diversification or through mergers and acquisitions.

The consolidation of the industry has occurred because market sizes have decreased, leaving behind a small number of large customers. Therefore, the pressure to consolidate is passed down the chain – from the manufacturers, to the steel mills, to the iron ore suppliers. Examples of this can be seen in Europe, where Thyssen merged with Krupp to form TKS, British Steel merged with Hoogovens to become Corus, and Usinor, Arbed and Aceralia merged to form Arcelor. In the United States, the USX-US Steel Corporation and Bethlehem Steel Corporation – currently under bankruptcy court

protection – have expressed an interest in merging. Kawasaki Steel and NKK will merge in Japan in the near future. The list of mergers and strategic alliances continues to grow and to be matched by a similar trend in the iron ore industry towards fewer, larger, more robust companies. The end result for the iron ore industry is that Rio Tinto, CVRD, and BHP Billiton now account for 70 per cent of world seaborne trade in iron ore; that comes to about 280 million tons of iron ore a year. While Rio Tinto feels barriers to entry in this industry are low, on a practical basis, it would be extremely difficult to compete with the big three miners.

China as the Locomotive

China has saved the steel industry for North America, Japan and Europe. The sheer size of the Chinese domestic market has enabled that nation to ride out the Asian economic crisis and to provide relief for faltering growth in other regions. China's iron ore mines are only able to satisfy about 60 per cent of domestic demand. Without China's increasing appetite for iron ore imports, the low growth in the industry would be stagnant or even negative.

Standard & Poor's on Other Metals Groups

1. Aluminum[7]

S&P's fundamental outlook for the S&P Aluminum Index is neutral, based on expectations for a low single digit increase in sales and EPS in 2007. For 2006, S&P believes that sales and EPS will post large double-digit increases. S&P's outlook for aluminum in 2007 is based on views that the average price of aluminum will increase despite our outlook for a likely decline in U.S. aluminum consumption. Year to date through November 3, the S&P Aluminum Index was down 0.3%, compared to a 9.0% increase for the S&P 1500 and a 10.4% rise in the S&P Materials Index. Notwithstanding our neutral fundamental outlook for the industry, we have a positive view of most stocks in this group, based on valuation. While EPS and free cash flow of aluminum companies have been weak relative to other base metals producers despite a higher aluminum price, we believe the companies have begun to demonstrate improvement with respect to these benchmarks.

2. Diversified Metals & Mining[8]

S&P's fundamental outlook for the S&P Diversified Metals & Mining Index (in which copper companies dominate) for 2007 is negative, as we believe sales and EPS will decline from 2006. In our view, 2006 will likely prove to represent peak of cycle earnings. S&P's negative expectation mostly reflects their forecast for a decline in U.S. copper consumption. Longer term, S&P is positive on secular demand for copper and other base metals. In their view, the industrialization of China and India will lead to greater demand. At the same time, S&P believes production of copper will increase less rapidly than demand, as output at existing mines is exhausted and fewer new mines come into production. Consequently, S&P believes that the copper price at the next trough will be higher than the $0.71 of 2002. Also, the next market peak should result in copper prices reaching a higher average than the average price seen in 2006. Year to date through November 3, 2006, the S&P Metals & Mining Index was up 34.1%, versus a 9.0% increase in the S&P 1500 and a 10.3% rise in the S&P Materials Index. In 2005, the Index rose 59.7%, while the S&P 1500 gained 3.8% and the S&P Materials Index was up 2.3%. Despite S&P's negative view of industry fundamentals, S&P is neutral on most companies in this group based on valuation.

3. Gold[9]

S&P's fundamental outlook for the gold sub-industry in 2007 is positive. Based on their expectation for another increase in the gold price in 2007 from 2006, S&P looks for higher sales and EPS for this sector in 2007 even though production volumes are likely to decline from 2006 levels. While the gold price has been rising steadily since 2001 and reached the highest average level in 2006 since 1980, S&P believes that the price will rise again in 2007 for several reasons.

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[7] Larkin, Leo. Sub-Industry Review: Aluminum. 3 November 2006. Standard & Poor's NetAdvantage. 1 Dec 2006. Available: St. John's University Libraries. <http://www.stjohns.edu>
[8] Ibid, Larkin, Leo.
[9] Ibid, Larkin, Leo.

- First, S&P believes that short-term interest rates in the U.S. will decline in 2007 from 2006 as the Federal Reserve continues to ease monetary policy in response to a slower growing U.S. economy. In their view, lower interest rates reduce the opportunity cost of holding gold as an investment and should allow gold to rise even if other commodities decline in response to slower economic growth.

- Second, notwithstanding the higher gold price, global production has been stagnant for the past 10 years. The low level of gold prices in the late 1990s led to a drop in exploration and large new discoveries. According to data compiled by Gold Fields Minerals Service, a U.K.-based metals consulting firm and publisher, global output increased at a 0.7% compound annual rate (CAGR) from 1996 through 2005 while consumption rose at a CAGR of 1.5%. S&P believes that production will remain stagnant or even decline in 2007, as old mines are becoming depleted and are not being replaced. Few new mines of any consequence are coming on stream in 2007. That, combined with firm demand, should cause the chronic gap between production and consumption of gold to widen further, helping to lift the gold price, in our view.

- Third, S&P believes that greater volatility of the major world currencies will likely increase the demand for gold as a monetary reserve asset. In addition, S&P believes that the U.S. dollar is in a secular bear market. Moreover, S&P believes that China and other countries that hold a large portion of their foreign exchange reserves in the U.S. dollar will ultimately diversify out of the dollar and into other currencies and gold.

Year to date through November 10, the S&P Gold Index fell 14.3%, compared to a 10.4% increase for the S&P 1500 Stock Index and a 21.6% rise in spot gold. In 2005, the sub-industry index rose 20.2%, versus a 3.8% gain for the S&P 1500 and an 18.6% rise in spot gold.

Competitive Positioning

Rio Tinto is the “GE” of international mining. The Group efficiently finds, mines and processes the earth's mineral resources, metals and minerals, facilitating a variety of major products including aluminum, copper, diamonds, energy products, gold, industrial minerals (borates, titanium dioxide, salt and talc), and iron ore. The company says it is not dependent on any one product.

Competitive Environment

Rio Tinto is a major producer in all the metals and minerals markets in which it operates. It is generally among the top five global producers by volume. It has market shares for different commodities ranging from five per cent to 40 per cent. The competitive arena is spread across the globe, including eastern Europe, Russia and China.

Most of Rio Tinto’s competitors are private sector companies, which are publicly quoted. Several are, like Rio Tinto, diversified in terms of commodity exposure, but others are focused on particular commodity segments. According to Rio Tinto’s filings with EDGAR, metal and mineral markets are highly competitive with **few barriers to entry**. They can be subject to price declines in real terms reflecting large productivity gains, increasing technical sophistication, better management, and advances in information technology. However, as previously mentioned, smaller miners will have great difficulty entering the market, and legitimately competing with the big three miners.

Despite relatively low barriers to entry, high quality, long life mineral resources, the basis of good financial returns, are relatively scarce. In other words, **the threat of substitute products is not very high.** Rio Tinto’s ownership of, or interest in, some of the world’s largest deposits enables it to contribute to long term market growth. World production volumes are likely to grow at least in line with global economic activity. The emergence of China and eventually India as major economies requiring metals and minerals for development could mean even higher market growth.

The Fab Five

Rio Tinto has five (5) main factors that are relevant in measuring its competitive strength. These factors; Quality of Assets, Focus on Core Competences, Diversity of Asset Portfolio, Management Team, and Portfolio Options are all affirmed by its annual financial growth. Moreover, in terms of Michael Porters competitive strategy, it is clear that Rio Tinto is focused on being the world’s premier provider of commodity goods, differentiating its quality, reasonably priced, raw materials.

- When it comes to quality, Rio only looks for large, long life, low-cost assets that generate substantial cash flow at all points of the economic cycle. These assets must secure competitive positions by giving Rio options for growth in the future.

- Rio's future is grounded by its focus on its core competences of mining and strong culture of operational excellence.

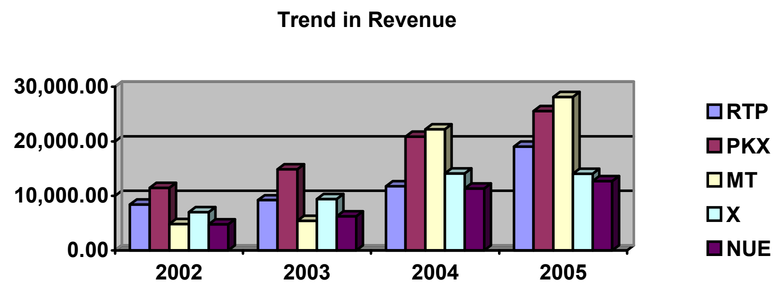
- The diversity of the company's asset portfolio assures that cash flow is consistently very strong throughout the business cycle.

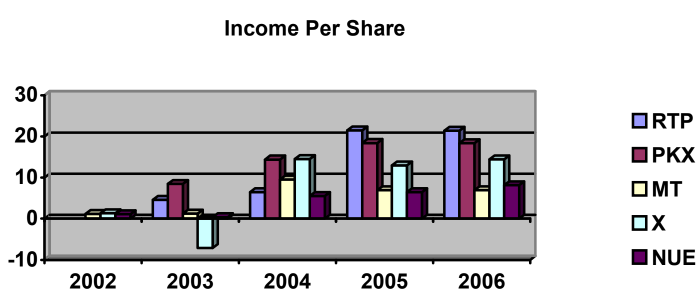
- The management team has a proven track record of providing shareholders with strong returns.

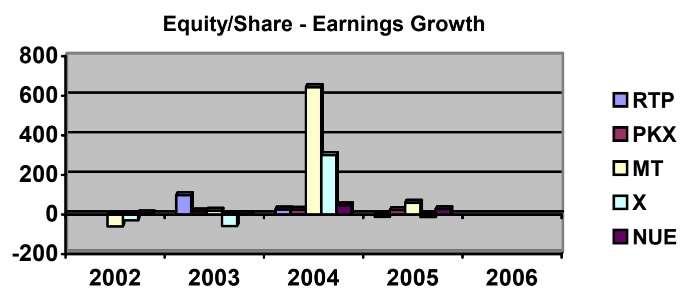
- Strong portfolio options spread across various commodities and geographies provide opportunities for consistent growth.

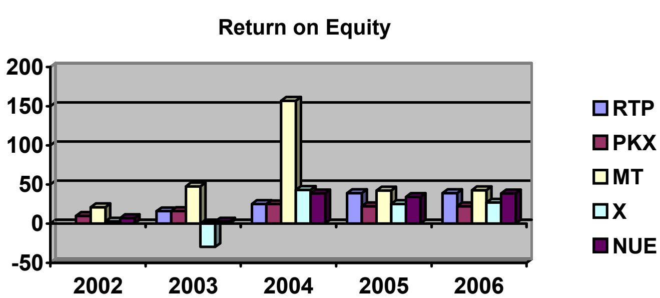
The following charts present a synopsis of Rio's fundamental annual growth in relation to its competitors:

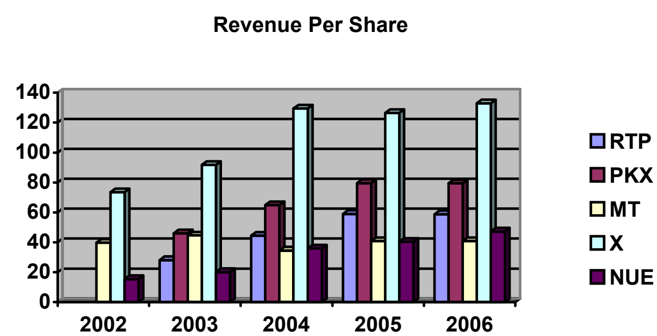
- Posco (PKX)
- Mittal Steel Company (MT)
- United Steel Corp. (X)
- Nucor Corp. (NUE)







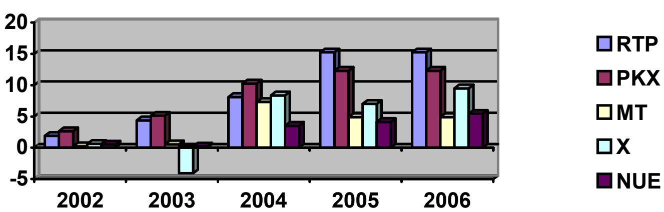




Growth Analysis

*Lowest TTL equals strongest overall growth

The company's strongest publicly traded competitor is PKX, who is stronger in certain aspects. Overall RTP is tied with PKX; however RTP is first in the growth of Earnings Per Share (EPS). EPS is generally considered to be the single most important variable in determining a share's price. The potential increase in the stock price is the sole purpose for buying the stock.



Ticker	**(1)*	**(2)*	**(3)*	**(4)*	**(5)*	**(6)*	***TTL**
RTP	*3*	*3*	*1*	*1*	*3*	*2*	***13***
PKX	*2*	*2*	*2*	*2*	*2*	*3*	***13***
MT	*1*	*4*	*4*	*4*	*1*	*1*	***15***
X	*4*	*1*	*3*	*3*	*5*	*5*	***21***
NUE	*5*	*5*	*5*	*5*	*4*	*4*	***28***

Metals Prices FY2006 & Beyond

1. Interntaional Council on Mining & Metals[10]

Sustained Chinese and Indian demand will help ensure the current strength in metals prices cycle does not deflate in the long term, a body representing the world's largest miners says. Paul Mitchell is secretary general of the International Council on Mining and Metals (ICMM), a forum comprising the chief executives of the world's 15 largest mining companies. Mr. Mitchell said most members of his group viewed the current commodity price cycle as having enough momentum to last the long term. "You would have various views on this, but I believe their consensus view is that for a variety of factors, there's strong world economic growth, particularly industrial growth in the traditional OECD economies," Mr Mitchell said. "And added to that has been China's development and the development particularly of its industrial sector. "India as well, but India's industrial base is not as big as China's so that per capita demand out of India is not as great even though the populations are similar." Capacity constraints in Australia and the rest of the world were also adding to the upward pressure on prices. "The other factor is the difficulty in bringing on new supply," he said. "Mining development everywhere is becoming more complex and more lengthy and mining is supply constrained in the short-term so that would tend to keep prices for most commodities high." The ICMM includes BHP Billiton and Rio Tinto and a host of national mining bodies, government and non-government organisations. It focuses on developing best practice standards for sustainable development in resource rich countries.

2. BHP Billiton's Take on Commodity Prices[11]

The world's largest miner BHP Billiton Ltd says that with an encouraging demand outlook for commodities, albeit with risks, high prices look set to continue. Chairman Don Argus has a positive outlook for the global economy. "While rates of growth around the world are likely to slow from the very strong levels we've seen, we view the global economic outlook as positive," he said. "The demand outlook for commodities is encouraging. But the outlook is not without risk. "Escalating geopolitical tensions, supply disruptions and high energy prices are adding increased uncertainty in markets." Mr Argus said that BHP Billiton expects natural and man-made events to continue to disrupt supplies, as regulatory approvals and rising capital costs are delaying project developments. "The likely outcome of these circumstances is an extended period of high cyclical prices for the commodities that BHP Billiton produces," he said.

3. Gold[12]

Publication of The Yellow Book, twice a year, by Fortis Bank, is done in conjunction with research carried out by Virtual Metals. Virtual Metals is a specialist UK-based commodities research organization headed by Jessica Cross, former gold analyst with Rio Tinto. Cross and her team of analysts work on a model originally developed by Cross at Rio Tinto and the data is extremely comprehensive but, as is the nature of predictive

[10] Holmes, Sam. "Big Miners Expect High Commodity Prices Are Here to Stay." 31 October 2006. *Australian Associated Press Pty. Ltd.* In LexisNexis [database online]. Accessed 1 December 2006. Available: St. John's University Libraries.
[11] Oderberg, Isabelle. "BHP Billiton Says Commodity Outlook Encouraging But Sees Risks." 26 October 2006. *Australian Associated Press Pty. Ltd.* In LexisNexis [database online]. Accessed 1 December 2006. Available: St. John's University Libraries.

[12] "Gold Supply in Surplus in 2007 – The Virtual Metals Forecast." 2 November 2006. *Global News Wire – Asia Africa Intelligence Wire.* In LexisNexis [database online]. Accessed 1 December 2006. Available: St. John's University Libraries.

research into the gold sector, there are many unknowns and a great number of assumptions have to be made within some sectors of the market.

Perhaps the biggest factor that took the gold market by surprise this year so far has been the massive level of de-hedging seen in the first half of the year. This offset much of the price-related weakness in the investment jewellery market and higher levels of scrap generation. However, de-hedging is likely to slow sharply in the second half of 2006 and in 2007, and as such, jewellery demand will need to re-establish itself firmly to sustain higher gold prices. Virtual Metals has revised its very comprehensive figures set out in The Yellow Book in an excellent series of tables looking at gold supply and demand in virtually every market and market category. Looking ahead to 2007, Virtual Metals now expects the market to move more into surplus by some 219 tonnes, despite supply falling by 159 tonnes, as demand is forecast to fall by 313 tonnes. Higher mine supply (up 21 tonnes), will be offset by lower central bank sales (down 51 tonnes), much lower scrap recycling (down 117 tonnes) and slightly lower hedging (down 12 tonnes). The anticipation then is that three categories of demand would rise: jewellery fabrication (up 47 tonnes), electronics (up 31 tonnes) and other end uses. However these would be offset by weaker ETF demand (down 108 tonnes) as the investment fever for gold cools - although this could be affected by new launches that tend to attract heavy initial investment - lower central bank purchases, and a sharp decline in de-hedging of 186 tonnes.

Virtual Metals makes no price predictions, but if its analyses are accurate then one would expect the gold price to stagnate at best. However there are a good number of assumptions made in the overall analysis, which could prove to be incorrect. As Virtual Metals itself says in its conclusions: "…the market supply and demand in 2007 will be largely predicated by the gold price performance throughout the remaining months of this year." We have seen throughout 2006 so far, a lot can happen in three months.

4. Copper, Zinc, and Nickel[13]

Citigroup Inc. said the "super cycle" in metals it forecast more than 18 months ago is still intact and will keep prices for copper, zinc and nickel above historical averages. The bank raised metals forecasts for 2006 through 2010 "based on persistent tight fundamentals," Sydney-based Citigroup analysts said yesterday in an e-mailed report. "This is testament that the super cycle is intact." Soaring Chinese demand and the inability of miners and smelters to keep pace has fueled a five-year rally in industrial metals. That has boosted profit at companies including BHP Billiton Ltd. and Anglo American PLC. Alan Heap, Citigroup's director of commodity analysis, said in February, 2005, that metals may be entering a "super cycle." Since then, copper and nickel prices have more than doubled and zinc has tripled.

Mergers & Acquisitions to Contribute to Price Increase

A large number of mergers and acquisitions in the natural resources space is set to continue, reaping rewards for investors, manager Ian Henderson has claimed. Mr. Henderson, who runs the GBP825.5m JPMorgan Asset Management Natural Resources fund, said there has been at least GBP52bn ($100bn) worth of takeovers in the past 12

[13]Bloomberg News. "Prices for Copper, Zinc and Nickel to Stay Above Historical Average: Bank." 21 November 2006. *National Post's Financial Post & FP Investing (Canada).* In LexisNexis [database online]. Accessed 1 December 2006. Available: St. John's University Libraries.

months, which would further reduce the supply of commodities. This could only fuel price increases, while base metal inventories, which are at low levels, should support metal prices[14].

Bargaining Power of Suppliers and Buyers

Supply shocks from M&A, together with demand shocks from growing Asian economies, make the outlook for suppliers' ability to negotiate favorable prices much higher. An example of this is the fact that China has been forced to accept rate hikes in prices of Iron Ore imports to support its scorching economic growth. As previously mentioned throughout this report, many sources are convinced, even if not in the short-term, that the long-term prices of commodities will increase. What's more, metals and mining companies produce the raw materials for industrial production. Like oil, global populations require these items for economic growth and prosperity. Therefore, the bargaining power of suppliers, like Rio Tinto, is vastly greater than those of industry buyers, like Arcelor.

[14] "M&A Raises Value of Natural Resources." 10 November 2006. *Financial Times Business Limited*. In LexisNexis [database online]. Accessed 1 December 2006. Available: St. John's University Libraries.

Financial Analysis

First Half-Year-to-Date Earnings Review[15]

First half underlying earnings, excluding extraordinary items, of $3,751 million were a record, and 80 per cent above the corresponding period in 2005. Cash flow from operations was a record at $5,202 million, 52 per cent higher than that of the first half of 2005. Increased volumes from investment in additional capacity, particularly in copper and iron ore, contributed $129 million to earnings. Many operations achieved record production in the period. Rising prices and strong demand for most products increased underlying earnings by $1,804 million. Recognition of additional tax assets contributed $211 million to the increase in underlying earnings compared with the first half of 2005. Industry wide cost pressures impacted the business in the first half, reducing underlying earnings by $513 million, adjusted for inflation. Adverse weather conditions reduced volumes and increased costs in Australian businesses early in the year. Continuing investment in the growth of the business was reflected in record capital expenditure of $1,758 million in the first half. The major infrastructure and mine expansions of the Group's iron ore operations in Western Australia are on track, and construction commenced on the development of the Hope Downs deposit.

Other significant development projects were progressed, including the titanium dioxide project in Madagascar, the Cortez Hills gold deposit in the US and the Argyle underground diamond mine in Australia. HIsmelt® made its first shipment to customers in the US.

As part of the Group's 2006/07 capital management programme, a special dividend of $1,500 million was paid to shareholders in April, and $1,023 million of shares were bought back on the London market since February.

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
Other operations	**120**	120	0%	**17**	47	-64%	**16**	25	-36%
	12,111	9,439	28%	**6,393**	4,279	49%	**3,972**	2,273	75%
Other items				**-132**	-152	-13%	**-127**	-96	32%
Exploration and evaluation				**-87**	-64	36%	**-80**	-59	36%
Net interest							**-14**	-31	-55%
Underlying earnings				**6,174**	4,063	52%	**3,751**	2,087	80%

[15] First Half-Year-to-Date Earnings Review. August 2006. SEC Filings & Forms (EDGAR) Form 6-K. 1 Dec. 2006. <http://www.sec.gov/edgar.shtml>

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
Iron Ore	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
Hamersley Iron (including HIsmelt®)	**1,889**	1,425	33%	**1,088**	766	42%	**698**	474	47%
Robe River	**608**	477	27%	**393**	302	30%	**197**	145	36%
Iron Ore Company of Canada	**435**	422	3%	**168**	207	-19%	**54**	67	-19%
Rio Tinto Brasil	**43**	19	126%	**14**	–	N/A	**6**	-0.05	-12100%
TOTAL	**2,975**	2,343	27%	**1,663**	1,275	30%	**955**	681	40%

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
Energy	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
Rio Tinto Energy America	**714**	578	24%	**150**	135	11%	**90**	68	32%
Rio Tinto Coal Australia	**1,149**	1,065	8%	**500**	441	13%	**272**	228	19%
Rössing	**74**	60	23%	**20**	11	82%	**7**	1	600%
Energy Resources of Australia	**114**	98	16%	**38**	41	-7%	**8**	10	-20%
TOTAL	**2,051**	1,801	14%	**708**	628	13%	**377**	307	23%

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
Industrial Minerals	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
TOTAL	**1,252**	1,208	4%	**313**	313	0%	**137**	124	10%

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
Aluminium	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
TOTAL	**1,658**	**1,383**	**20%**	**673**	**416**	**62%**	**369**	**203**	**82%**

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
Copper	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
Kennecott Utah Copper	**1,562**	966	62%	**1,136**	663	71%	**1,033**	465	122%
Escondida	**1,311**	538	144%	**1,144**	378	203%	**700**	219	220%
Grasberg joint venture	**149**	254	-41%	**140**	167	-16%	**65**	85	-24%
Palabora	**276**	168	64%	**105**	28	275%	**38**	6	533%
Kennecott Minerals	**101**	139	-27%	**56**	72	-22%	**45**	42	7%
Northparkes	**245**	65	277%	**208**	35	494%	**124**	17	629%
TOTAL	**3,644**	2,130	71%	**2,789**	1,343	108%	**2,005**	834	140%

FIRST HALF-YEAR BUSINESS SEGMENT RESULTS									
	Gross Turnover			EBIDTA			Net Earnings		
Diamonds	HY2006	HY2005	% Change	HY2006	HY2005	% Change	HY2006	HY2005	% Change
Argyle	**201**	246	-18%	**90**	107	-16%	**41**	40	3%
Diavik	**197**	186		**135**	136	-1%	**70**	50	40%
Murowa	**13**	22		**5**	14	-64%	**2**	9	-78%
TOTAL	**411**	454		**230**	257	-11%	**113**	99	14%

Recent Developments

Rio Tinto reported a 6% decline in third-quarter mined copper production after a strike at the jointly owned Escondida mine in Chile. Unfortunately, the strike also hurt refined copper production, which dropped 15%. Rio Tinto also reported record iron ore production and U.S. coal production at similar levels to the record production achieved in the second quarter[16].

In terms of M&A, Rio Tinto has reached agreement to acquire a holding of 19.9 per cent in Ivanhoe Mines in order to jointly develop and operate Ivanhoe's Oyu Tolgoi copper-gold complex in Mongolia's South Gobi region. Through various agreements, including government contracts, non-transferable warrants, and potential open-market transactions, Rio can take a maximum holding in Ivanhoe to 40 per cent. The investment totals up to $1.7 billion in Vancouver, British Columbia-based Ivanhoe Mines to help develop Mongolian copper-gold resources. A joint Ivanhoe-Rio Tinto technical committee will engineer, construct and operate the project. This agreement creates a defined path for Rio Tinto to become the largest shareholder in Ivanhoe Mines. "Rio Tinto is pleased to be able to gain an interest in the world's largest undeveloped copper-gold resource and to be able to bring its world class operating and technical capability to the Oyu Tolgoi project. We look forward to taking part in negotiations with the Mongolian government on the long term investment agreement for the project." said Tom Albanese, Rio Tinto director Group Resources[17].

In terms of production, Rio Tinto reported that third-quarter refined copper production fell 15 percent after the company shut down a smelter at a mine in Utah. Total refined copper output fell to 75,600 metric tons (83,300 tons), from 89,200 metric tons (98,300 tons) in the same period a year earlier, the company said in a statement. Mined copper output fell 6 percent 182,800 metric tons (201,500 tons) during the third quarter after actions by workers at Rio Tinto's Escondida mine in Chile, the company said in a statement. Third-quarter aluminum production slipped 1 percent to 215,000 metric tons (237,000 tons), while iron ore output gained 11 percent to 35,740 metric tons (39,400 tons), the company said[18].

[16] Rio Tinto Copper Production Down on Escondida Strike. 18 Oct. 2006. MarketWatch. 1 Dec. 2006. <http://finance.yahoo.com>
[17] Rio Tinto Takes Strategic Stake in Ivanhoe Mines. 18 Oct. 2006. SEC Filings & Forms (EDGAR). 1 Dec. 2006. <http://www.sec.gov/edgar.shtml>
[18] Rio Tinto Reports Copper Production Fell. 18 Oct. 2006. Associated Press. 1 Dec. 2006. <http://finance.yahoo.com>

Capital Management Program[19]

During the first nine months of 2006, the Group bought back $1,750 million of Rio Tinto plc shares under the 2006/2007 $2.5 billion share buyback programme announced on 2 February 2006. In addition, a special dividend of $1.5 billion was paid on 6 April, bringing the total returned to shareholders to date under the 2006/07 programme to $3,250 million.

On October 27th, 2006, Rio Tinto said that it intends to raise its capital managment program to $7 billion, from a previous level of $4 billion. Additional cash return will be made through the buyback of shares by the end of 2007[20]. The additional cash return will be made through the buyback of shares between now and the end of 2007. "It's like finishing opening up your Christmas presents and you look under the tree and there's the best present, which you hadn't noticed before," Ian Henderson of JPMorgan Asset Management told Bloomberg News. "I'm still very optimistic, I still perceive this cycle to have legs," Henderson said[21].

Rio Tinto's finance director Guy Elliott said, "In today's favourable markets, the Group's high quality assets are generating record cash flows. This allows us to make substantial investments in the growth of the business and to return cash to shareholders. Our balance sheet remains strong, and we are pleased to make this increase in our capital management programme. Of course the programme remains subject to market conditions."

Under the current US$4 billion capital management programme, US$1.5 billion was returned to shareholders on 6 April 2006 in the form of a special dividend. Of the remaining US$2.5 billion of that programme, US$1.9 billion has been returned to shareholders through the buyback of Rio Tinto plc shares in the London market, leaving an outstanding balance of US$600 million to be completed.

Third Quarter Operations Review[22]

Record iron ore production was achieved in the quarter as the Pilbara expansion programme continued to deliver additional capacity. Higher grades and improved recovery rates at Kennecott Utah Copper delivered record molybdenum production. Mined copper production was lower due to industrial action at Escondida and refined copper production was down due to the commencement of a scheduled smelter shutdown at Kennecott Utah Copper. Production at the Comalco Alumina Refinery was only slightly below the record second quarter production, despite two planned major maintenance shutdowns during the quarter. Titanium dioxide feedstock production continued to reflect the strength of current customer demand and the expansion of the UGS plant. US coal production was at similar levels to the record production achieved in the previous quarter. Production of hard coking coal continued to recover but year to date output remained lower than 2005 reflecting customer demand. Finally, Diavik achieved record diamond production in the quarter.

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[19] Rio Tinto Increases Capital Management Programme to U.S. $7 billion. 27 Oct. 2006. SEC Filings & Forms (EDGAR). 1 Dec. 2006. <http://www.sec.gov/edgar.shtml>.

[20] Rio Tinto to Raise Capital Management Program to $7B. 27 Oct. 2006. MarketWatch. 1 Dec. 2006. http://finance.yahoo.com

[21]

[22] Third Quarter 2006 Operations Review. 18 Oct. 2006. SEC Filings & Forms (EDGAR). 1 Dec. 2006. <http://www.sec.gov/edgar.shtml>.

Segment Operation

Iron Ore & Iron

Demand for iron ore remained strong in all markets during the quarter. Expansion projects in the Pilbara remained largely on schedule and within budget.

1. Hamersley and Robe River

Record quarterly iron ore production and sales in the Pilbara were achieved as the ramp up of mine and port capacity expansions started to take effect.

Despite continued recovery from the impact of cyclone activity experienced earlier in the year, Hamersley production was up nine per cent on the previous quarter due to additional capacity coming on stream at the Yandicoogina mine and the first full quarter of production from the newly commissioned Nammuldi mine.

Additional processing of low grade material at the West Angelas mine was the main contributor to Robe River's three per cent increase in production compared with the corresponding period last year.

2. HIsmelt

HIsmelt produced 25,800 tonnes of pig iron during the quarter as the plant continued to ramp up to nameplate capacity of 800,000 tonnes a year. During the quarter the plant achieved around 70 per cent availability, with peak production at 65 per cent of nameplate capacity.

3. Iron Ore Company of Canada

Third quarter pellet and concentrate production was below the previous quarter due to planned maintenance activities. Year to date pellet production was seven per cent lower than the corresponding period last year as a result of the extreme weather conditions experienced in the first quarter and a change in product mix in favour of concentrate production. Concentrate production in the first nine months of this year was up 60 per cent on the same period last year.

Energy

1. US thermal coal

Third quarter production continued to reflect the recovery of rail capacity from the 2005 maintenance campaign as well as the capacity expansions underway at the Spring Creek and Antelope mines. The commissioning of a new dragline at Jacobs Ranch earlier in the year also contributed to a new quarterly production record at that mine.

2. Australian coal

Production of hard coking coal was 13 per cent higher than the previous quarter reflecting a partial recovery in customer demand. Year to date production was 22 per

cent below the first nine months of last year reflecting softness in the hard coking coal market.
Production from the Hunter Valley operations was aligned with the allocation set under the Port Waratah Coal Services (PWCS) capacity balancing system. However during the quarter, coal producers in the Hunter Valley voted not to continue with the capacity balancing system in 2007. This will allow the Port of Newcastle to operate on a take or pay basis and as a result, PWCS customers will not have their coal handling requirements reduced to match the capacity of the coal chain.

3. Uranium

Production at the Ranger mine recovered from the heavy rainfall and throughput issues experienced in the second quarter of 2006, contributing to a 35 per cent increase in uranium production in the quarter. Production at Rössing was in line with the previous quarter.

Industrial Minerals

Borates production was at similar levels to the previous quarter and the corresponding quarter of 2005. Year to date production was in line with the corresponding period last year.

Titanium dioxide feedstock production in the first nine months of the year was six per cent higher than 2005 reflecting continued strength in market demand. The UGS expansion from 325,000 to 375,000 tonnes per annum is proceeding as scheduled and is due for completion at the end of the year.

Aluminum

Third quarter bauxite production was seven per cent higher than the corresponding period last year due to increased capacity resulting from the NeWeipa project.

Production at the Comalco Alumina Refinery was only slightly below the record production achieved in the second quarter, despite two planned major shutdowns during the quarter. The Comalco Alumina Refinery is on schedule to reach nameplate capacity by the end of the year as planned.

Production at Queensland Alumina and Eurallumina was in line with previous quarters. During the quarter, Rio Tinto announced the sale of its 56.2 per cent interest in the Eurallumina SpA refinery. The completion of the sale is conditional on customary joint venture partner rights.

Production from all aluminium smelters was ahead of the previous quarter and, with the exception of NZAS, the corresponding quarter last year. Aluminium production from the Tiwai Point smelter was lower due to the gradual return of some cells which were out of circuit as a result of power reductions caused by low rainfall in the hydropower catchment area.

Copper

1. Kennecott Utah Copper

Mined production of copper, molybdenum and gold benefited from higher grades compared with the corresponding period last year. Despite lower grades than in the previous quarter, mined copper production was unchanged due to higher throughput at the concentrator. Record molybdenum production in the third quarter was due to higher grades and improved recovery rates.

Refined copper production was significantly lower than the same period last year due to a major smelter shutdown which started in early September and is expected to be completed shortly. Refined gold production was in line with the previous quarter and higher than the comparative period last year due to a reduction in inventories.

2. Escondida

Third quarter mined copper production was 23 per cent lower than the previous quarter due to strike action over wage negotiations for most of August. The strike action ended on 2 September.

3. Grasberg

Lower grades for copper, gold and silver as a result of mine sequencing led to lower production for all three metals compared with the same quarter of 2005.

Rio Tinto's share of production is also affected by the metal strip, which determines the allocation of volumes between the joint venture partners. The structure of the agreement means that Rio Tinto's share of production is geared to fluctuations in total production volumes. Rio Tinto's share of production from the Grasberg mine is expected to be lower in 2006 and 2007 relative to previous years, before increasing in 2008 and beyond.

4. Other copper operations

At Palabora total mill throughput, levels of concentrate smelted and anodes produced were in line with the previous quarter. Increased production at Northparkes reflected the continued mining of higher grade ore from the Lift 2 area.

Diamonds

1. Argyle

Increased carat production was achieved in the third quarter due to higher grades. However continued variability in production levels is expected as the mine approaches the end of the open-pit life and transitions to an underground operation.

2. Diavik

Despite the challenges of the early closure of the ice road, Diavik achieved record carat production in the quarter. Production was four per cent higher than the previous quarter and 30 per cent higher than the same period last year, largely as a result of improvements in throughput.

Exploration & Evaluation

Pre-tax expenditure on exploration and evaluation charged to the profit and loss account in the first nine months of 2006 was $175 million compared with $168 million in the first nine months of 2005. $38 million of this expenditure was charged against business unit earnings.

Exploration drilling was sustained on copper targets in Chile, Argentina, Kazakhstan, and the US. Exploration in Russia continued as part of the RioNor Joint Venture. Diamond exploration remained focused on targets in Canada, Botswana, Mauritania, India and Brazil. Iron ore exploration continued in Western Australia and west Africa. Exploration for thermal and coking coal continued in southern Africa, North America, South America and Mongolia. At Chapudi coal in South Africa progress continued on drilling and securing land tenements. Exploration for bauxite is ongoing in Brazil. Brownfield exploration is underway at a number of Rio Tinto businesses, including the Pilbara, Kennecott Utah Copper, the Freeport and Cortez Joint Ventures, Greens Creek and Northparkes.

Evaluation work continued on a number of projects including Eagle (nickel/copper, US), Resolution (copper/gold, US), Potasio Rio Colorado (potash, Argentina), La Granja (copper, Peru) and Simandou (iron ore, Guinea). Rio Tinto is monitoring the work by Northern Dynasty Minerals at the Pebble copper-gold-molybdenum deposit in Alaska. Contract of Work negotiations continue at La Sampala nickel in Indonesia.

Corporate Activity

During the quarter Rio Tinto's shares in Ashton Mining of Canada were taken up by Stornoway Diamonds under its takeover bid for Ashton. In exchange for the shares in Ashton, Rio Tinto will receive cash totaling approximately C$29.6 million and 25.6 million Stornoway common shares.

Iron Ore Prices

Benchmark annual iron ore prices rose 19% this year. Rio Tinto, the world's second-largest iron ore exporter, said strong global demand for the steel-making ingredient could help raise prices next year, making it the fifth consecutive year of gains. Miners were struggling to increase production to meet demand led by Chinese steel makers, said Sam Walsh, head of iron ore business[23].

Rio Tinto expects another hike in iron ore prices next year because of continued firm demand for the steel-making ingredient in Asia. Rio Tinto iron ore chief executive Sam Walsh said that consumption remains "very strong" as Australian and Brazilian iron ore miners try to ramp-up expansion projects to meet rising imports in China. The tight market conditions would "lead somebody to interpret, or expect, that iron ore prices

[23] Rio Tinto Says Iron-Ore Prices Could Rise Again Next Year. 10 November 2006. Resource Investor. 1 Dec. 2006. <http://www.resourceinvestor.com/pebble.asp?relid=26021>

would increase," Walsh told reporters at the official opening of Rio's A$1 billion HIsmelt pig iron plant south of Perth. "I've just been up into Korea, China and Japan, and everything tells me, in those markets, demand for our product continues to be very, very strong[24]."

Analysts said the comments shore up expectations of an increase in contract iron ore prices for the fiscal year ending March 31, 2008, Growing Chinese demand resulted in a 19% price increase for the current fiscal year that ends March 31, 2007. That rise followed a 71.5% price hike in the previous year. "It has been a very consistent message from Rio and the other big iron ore producers - it remains a very tight market," said Craig Campbell, an analyst at Morgan Stanley, which is tipping a 15% price increase[25].

Rio Tinto is the world's second-biggest exporter of iron ore after Brazil's Cia. Vale do Rio Doce and is currently building a multibillion dollar expansion of its Western Australian iron ore operations. Rio, CVRD and world number three producer BHP Billiton were due to meet in November with Chinese steelmakers to begin the annual price negotiations. The last round of talks dragged on much longer than expected because of China's unwillingness to countenance another hike. China, which recently overtook Japan as the world's biggest iron ore importer, eventually agreed to the increase after European and Japanese mills settled their contracts[26].

Rio, meanwhile, is in partnership with U.S., Japanese and Chinese steel makers in its HiSmelt plant, which uses new smelting technology to produce pig iron, a feedstock for modern steel furnaces. Stephan Weber, Rio's managing director of HIsmelt, said the partners have received a lot of interest from steel mills in the technology. Weber predicted that around five HIsmelt plants could be built in the next decade, in countries such as China and India. The HIsmelt plant is owned by Rio Tinto with 60%, U.S. steel company Nucor Corp. with 25%, Japan's Mitsubishi Corp. with 10% and China's Shougang Corp. with 5%. Rio operates the facility, which is expected to produce 800,000 metric tons of pig iron per year by 2008[27].

[24] Rio Tinto Bullish on Outlook for Iron Ore. 9 Nov. 2006. MarketWatch. 1 Dec. 2006. <http://finance.yahoo.com>
[25] Ibid. Rio Tinto Bullish on Outlook for Iron Ore.
[26] Ibid. Rio Tinto Bullish on Outlook for Iron Ore.
[27] Ibid. Rio Tinto Bullish on Outlook for Iron Ore.

Technical Analysis

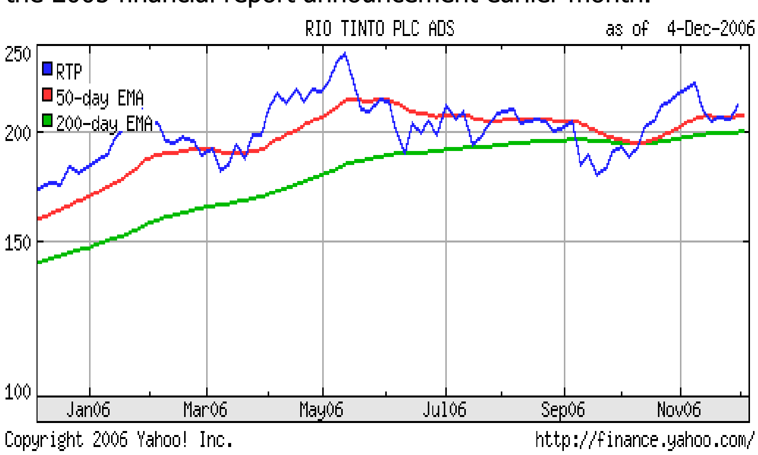
In order to fully complete the evaluation of the Rio Tinto's stock, we performed a stock price valuation based on the Earnings Multiplier. The following tables show the evaluation process and the appropriate stock price which will indicate whether the stock is overvalued or undervalued by the market.

The following evaluations used the Earnings Multiplier to estimate the stock price for one year:

Estimated Historical Price =

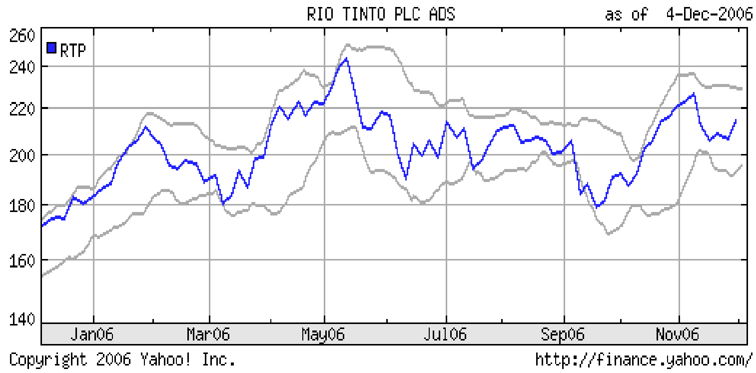
Historical Average P/E x Current EPS x (1 + Projected EPS Growth Rate)

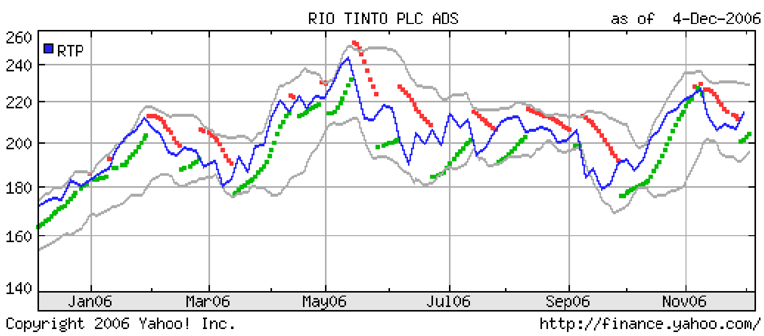
The chart above is Rio Tinto's 1-yeard stock trends, which shows the past one-year's performance. On February 22, 2005, their stock paid out dividends, which can be attributed to the 2005 financial report announcement earlier month.



Exponential Moving Average, (EMA). The Green line represents the 200-day MA. The Red line represents the 50-Day MA. There was an intersection with the 200-day MA most recently in November, which was a short signal. However, in the middle of October we saw both the 50-day MA and the current price of RTP, both move upward which is a sign that we are headed into a bullish market.

Bollinger Bands_ BOL which is a useful technical tool to measure the degree of price changing. The line in the middle is the price of stock. The price of stock plus (minus) 2 times standard deviation becomes upper (lower) line. The gap between upper and lower lines is the degree of price changing. When the price line surpasses the upper line , this could be seemed that the stock price is climbing, and it's a strong buy signal.





Parabolic_ SAR, is the tool which let investor to make the stop-loss point, and help observe the reverse point. When the upper curve hit the price line, it could be seen as a buy signal; the lower line hit the price line could be seen the sell one. As we can see, the price line close to the upper line in two recent occasions. The first on September 25th, the second time on Nover 29thwhich is a bullish situation.

Relative Strength Index, RSI, is one of statistic index which investor can observe the degree of market strength by changing of the price. We define 80 and 20 represent the overbought and oversold respectively. While current conditions suggest, the RSI will move upward, it is important notice that if the RSI line below 50, it could be a reverse down situation.

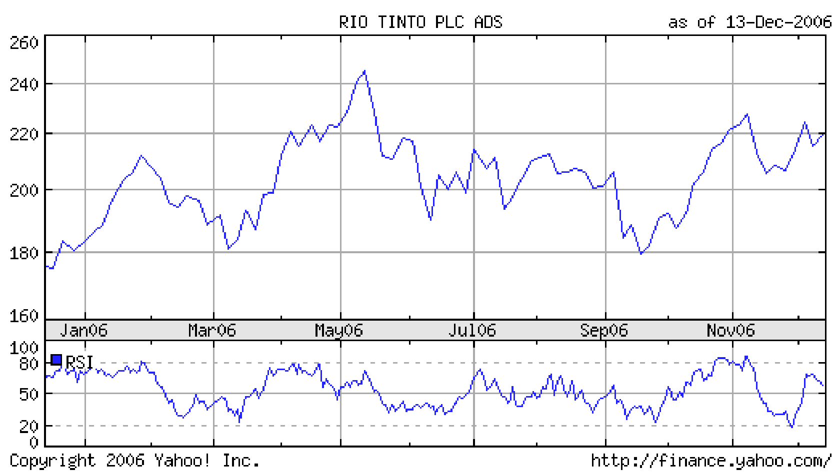


Chart 1

Daily View

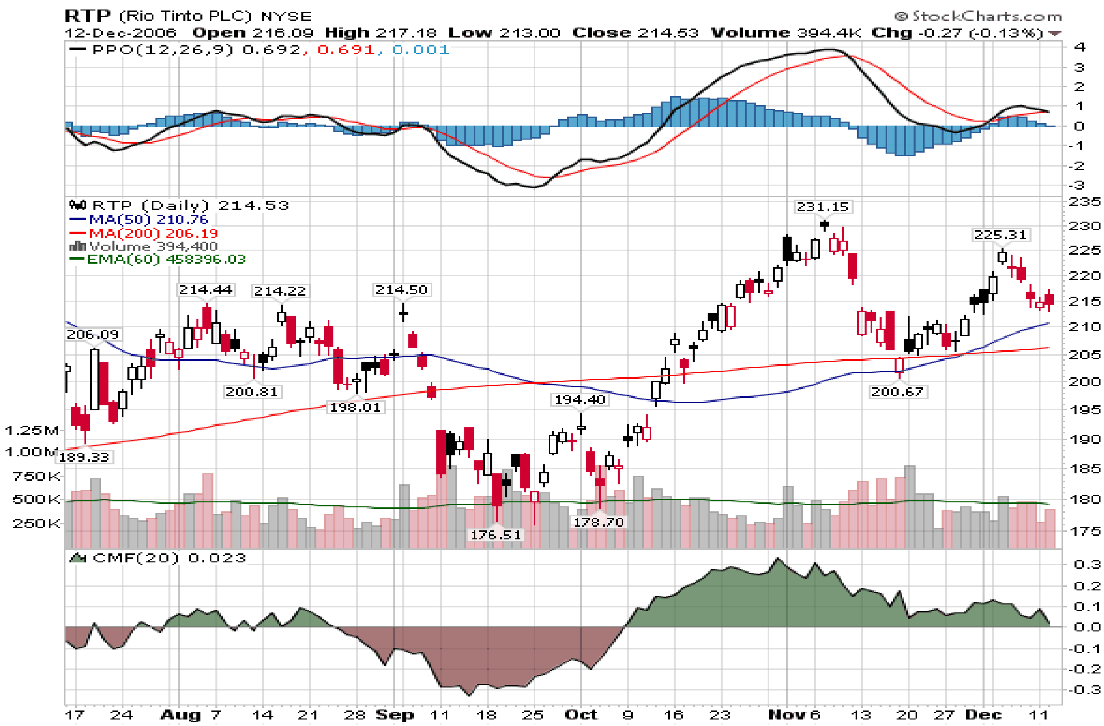


Chart 1 indicates the short-term moving average for the stock. The 50 day moving average is seen by simply adding up its closing price for the past 50 market days and dividing by 50. For a longer-term picture of the stock's trend, the closing prices are added up for the past 200 market days and divide by 200.

The stock is trading above its 200-day moving average. It is in an uptrend and seems to be showing signs of accumulation. The price of the stock is also above the rising 50 day moving average. This is a signature that bulls welcome.

Furthermore, the 50 and 200-day moving averages have gone from forming lines of resistance in September and early October to lines of support. The battle between the stock's bulls and bears at the lines of resistance were lost by the bears. Technically the stock has a clear shot at rising toward new highs.

The stock shows still another sign of strength by the 50-day average breaking above the 200-day average. This "Golden Cross" pattern represents a major shift from the bears to the bulls. The 50 day moving average changes much more quickly than the 200 day moving average. So when the share price rises the crossover indicates a good potential buy point.

Chart 2

Weekly View

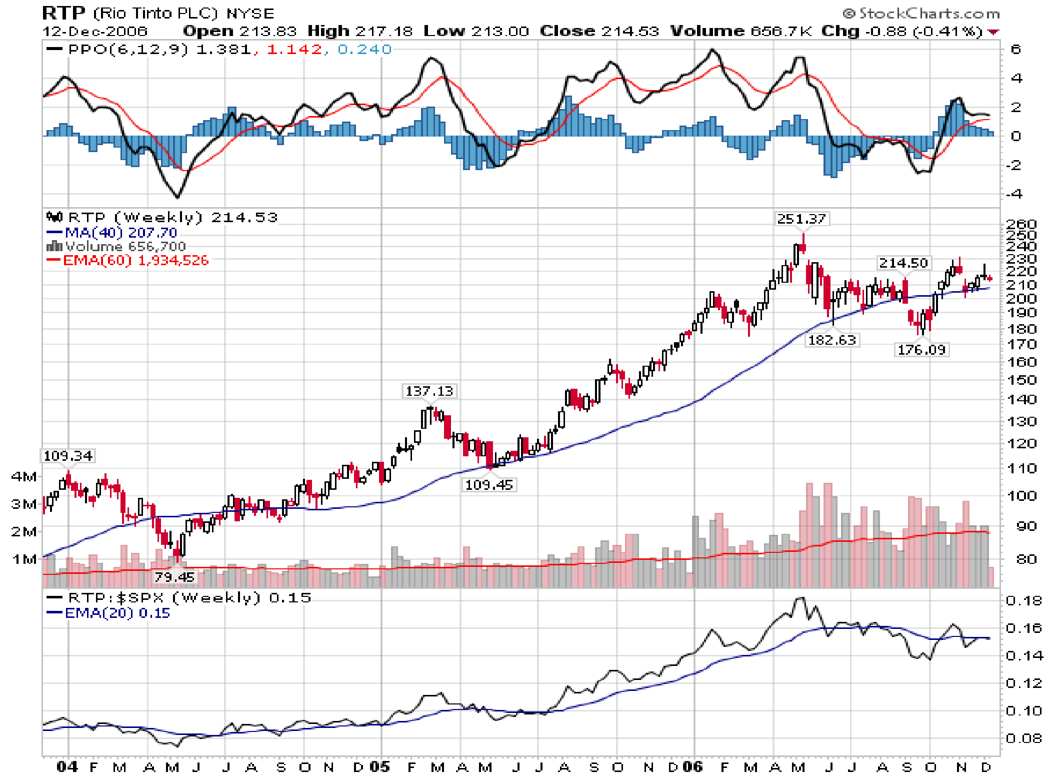


Chart 2 is a longer term candle stick chart. Since October the long white candlesticks have shown strong buying pressure. These longer white candlesticks signify the closing prices being above the open prices. This indicates that prices advanced significantly from open to close and buyers were aggressive. This long white candlestick pattern is generally a bullish sign. This month the last candlestick has a long upper shadow and short lower shadow indicating that buyers dominated during the session, and bid prices higher. However, sellers later forced prices down from their highs, and the weak close created a long upper shadow. Chart 3 will show if this is something to be concerned about or just normal consolidation in an upward trend.

Chart 3

Point & Figure View

At first glance of Chart 3 one may see the long 45 degree angle bullish support line. It did trade below this line shortly on low volume. However it has bounced back and has since started another bullish support line. Above the beginning of this line is a rising series of X's which signifies that demand for the stock is getting stronger and supply is getting weaker. This is a bullish sign for the stock. Another positive sign and potential buying signal is the last column of X's moving up toward the height of the previous column of X's. If this pattern continues up just one more X, it will form a "double top", which is the most basic buy signal or breakout pattern.

Investment Risks

Environmental Regulations

The mining industry is constantly limited by developments in health and safety standards. The most significant of which were introduced in the 2005 Kyoto Protocol in reaction to the ever growing concern for the reduction of greenhouse gases. The protocol requires industrialized nations to reduce the amount of greenhouse gas emissions by an average annual level of 5.2% for the years of 2008-2012. Also in 2005 was legislation by the US environmental protection agency in attempt to reduce the amount of SO2 and NOX emissions by 70% by the year 2015. Rio Tinto is obligated to abide by these regulations which could inflict new liabilities by affecting its current operational system. Such regulations could cause the company to suffer from declining profits in the short term.

Consolidation in the Global Steel Industry

The past few years have seen several significant mergers and takeovers within the steel industry. In 2006, Mittal Steel made a hostile bid for Arcelor Steel which resulted in the creation of the largest steel firm in history. Rio Tinto is dependent upon its steel customers. The merging of these large steel corporations will give them more purchasing power and inevitably reduce Rio Tinto's bargaining power.

Slowdown in US automotive production

The big three automakers in the US, Ford, GM, and Chrysler, are suffering from a declining market share due to the influx of Japanese competitors namely Honda, Toyota, and Nissan. Additionally, the US automotive industry has had to contend with the ever increasing price of healthcare and pension benefits offered to its workforce. The North American automotive market is Rio Tinto's largest customer for aluminum. Sluggish automotive production in the US will likely cause a decline in the company's revenue growth for that region.

Increased Energy Costs

The cost of energy production has increased world wide mainly due to the increase in fuel prices. Higher fuel prices could have a negative affect Rio Tinto's operating margins. To combat this, Rio Tinto hopes to make up the difference by raising prices for the raw materials markets it serves.

Rio Tinto
Income Statement

	2001	2002	2003	2004	2005
Sales (Net)	8,281.00	8,546.00	9,347.00	11,958.00	19,275.00
Cost of Goods Sold	5,133.00	5,683.00	6,845.00	8,474.00	11,344.00
Gross Profit	**3,148.00**	**2,863.00**	**2,502.00**	**3,484.00**	**7,931.00**
Selling, General, & Admin Expenses	C	C	C	C	C
Operating Income Before Depreciation	3,148.00	2,863.00	2,502.00	3,484.00	7,931.00
Depreciation, Depletion, & Amortiz	929.00	954.00	1,006.00	1,204.00	1,334.00
Operating Income After Depreciation	2,219.00	1,909.00	1,496.00	2,280.00	6,597.00
Interest Expense	500.00	373.00	376.00	313.00	317.00
Non-Operating Income/Expense	925.00	869.00	848.00	1,267.00	1,029.00
Special Items	(661.00)	(1,094.00)	126.00	362.00	3.00
Pretax Income	1,983.00	1,311.00	2,094.00	3,596.00	7,312.00
Income Taxes - Total	718.00	708.00	567.00	841.00	1,814.00
Minority Interest	186.00	(48.00)	19.00	(58.00)	283.00
Income Before Extraordinary Items & Discontinued Operations (EI&DO)	1,079.00	651.00	1,508.00	2,813.00	5,215.00
Extraordinary Items	0.00	0.00	0.00	0.00	0.00
Discontinued Operations	0.00	0.00	0.00	0.00	0.00
Net Income (Loss)	**1,079.00**	**651.00**	**1,508.00**	**2,813.00**	**5,215.00**
Income Before EI&DO	1,079.00	651.00	1,508.00	2,813.00	5,215.00
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Available for Common Before EI&DO	1,079.00	651.00	1,508.00	2,813.00	5,215.00
Common Stk Equivalents - Savings	0.00	0.00	0.00	0.00	0.00
Adjusted Available for Common	1,079.00	651.00	1,508.00	2,813.00	5,215.00

RioTinto
Balance Sheet

	2001	2002	2003	2004	2005
ASSETS					
Cash & Equivalents	690	631	625	468	2,537.00
Receivables - Total (Net)	1,769.00	1,494.00	1,782.00	1,810.00	2,407.00
Inventories - Total	1,482.00	1,502.00	1,783.00	2,026.00	2,048.00
Prepaid Expenses	720	701	684	707	108
Current Assets - Other	0	44	17	42	381
Current Assets - Total	4,661.00	4,372.00	4,891.00	5,053.00	7,481.00
Plant, Property & Equip (Gross)	20,918.00	23,384.00	28,665.00	31,875.00	32,730.00
Accumulated Depreciation	9,265.00	11,144.00	13,400.00	15,173.00	15,110.00
Plant, Property & Equip (Net)	11,653.00	12,240.00	15,265.00	16,702.00	17,620.00
Investments at Equity	2,186.00	2,577.00	2,644.00	2,817.00	1,988.00
Investments and Advances - Other	94	0	96	0	305
Intangibles	1,022.00	1,015.00	1,185.00	1,139.00	1,240.00
Deferred Charges	0	0	0	0	0
Assets - Other	0	0	0	0	1,169.00
TOTAL ASSETS	**19,616.00**	**20,204.00**	**24,081.00**	**25,711.00**	**29,803.00**
LIABILITIES					
Accounts Payable	592	584	737	950	1,055.00
Notes Payable	3,038.00	1,910.00	1,835.00	68	12
Accrued Expenses	379	360	381	495	653
Taxes Payable	331	371	250	189	987
Debt (Long-Term) Due In One Year	797	1,456.00	359	738	1,190.00
Other Current Liabilities	773	659	772	955	889
Total Current Liabilities	5,910.00	5,340.00	4,334.00	3,395.00	4,786.00
Long Term Debt	2,566.00	2,708.00	3,849.00	3,337.00	2,783.00
Deferred Taxes (Balance Sheet)	858	1,050.00	1,398.00	1,407.00	2,197.00
Investment Tax Credit	0	0	0	0	0
Minority Interest	827	778	1,003.00	936	791
Liabilities - Other	2,279.00	2,866.00	3,460.00	4,052.00	4,298.00
TOTAL LIABILITIES	**12,440.00**	**12,742.00**	**14,044.00**	**13,127.00**	**14,855.00**
SHAREHOLDERS' EQUITY					
Preferred Stock	0	0	0	0	0
Common Stock	886	970	1,240.00	1,288.00	1,191.00
Capital Surplus	1,600.00	1,610.00	1,629.00	1,650.00	1,888.00
Retained Earnings (Net Other)	4,690.00	4,882.00	7,168.00	9,646.00	11,869.00
Less: Treasury Stock	0	0	0	0	0
TOTAL SHAREHOLDERS' EQUITY	**7,176.00**	**7,462.00**	**10,037.00**	**12,584.00**	**14,948.00**
TOTAL LIABILITIES & EQUITY	**19,616.00**	**20,204.00**	**24,081.00**	**25,711.00**	**29,803.00**

Rio Tinto
Statement of Cash Flows

	2001	2002	2003	2004	2005
INDIRECT OPERATING ACTIVITIES					
Income Before Extraordinary Items	1079.00	651.00	1508.00	2813.00	5215.00
Depreciation and Amortizations	929.00	954.00	1006.00	1204.00	1334.00
Extraordinary Items and Disc. Operations	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	C	C	C	C	C
Equity in Net Loss (Earnings)	648.00	609.00	598.00	828.00	(176.00)
Sale of PPEq and Investments - Loss (Gain)	0.00	0.00	0.00	0.00	(322.00)
Funds from Operations - Other	195.00	320.00	(997.00)	(1418.00)	1392.00
Receivables - Decrease(Increase)	C	C	C	C	(530.00)
Inventory - Decrease (Increase)	(227.00)	85.00	(43.00)	(179.00)	(249.00)
Accounts/P and Accrued Liabs - Inc(Dec)	(48.00)	(57.00)	66.00	168.00	C
Income Taxes - Accrued - Increase(Decrease)	C	C	C	C	C
Other Assets and Liabilities - Net Change	(126.00)	158.00	154.00	(48.00)	279.00
Operating Actiities - Net Cash Flow	2450.00	2720.00	2292.00	3368.00	6943.00
INVESTING ACTIVITIES					
Investments - Increase	C	C	C	C	231.00
Sale of Investments	C	C	C	C	133.00
Short term Investments - Change	(18.00)	213.00	(105.00)	90.00	C
Capital Expenditures	1483.00	1420.00	1663.00	2357.00	2552.00
Sale of Property Plant and Equipment	25.00	16.00	19.00	40.00	C
Acquisitions	C	C	C	C	C
Investing Activities - Other	(779.00)	(339.00)	376.00	1743.00	167.00
Investing Activites - Net Cash Flow	(2255.00)	(1530.00)	(1373.00)	(484.00)	(2483.00)
FINANCING ACTIVITIES					
Sale of Common and Preferred Stock	7.00	15.00	33.00	33.00	104.00
Purchase of Common and Preferred Stock	0.00	0.00	0.00	0.00	877.00
Cash Dividends	803.00	948.00	833.00	906.00	1141.00
Long Term Debt - Issuance	641.00	C	C	C	388.00
Long Term Debt - Reduction	C	409.00	202.00	1833.00	893.00
Current Debt - Changes	C	C	C	C	C
Financing Activities - Other	0.00	22.00	0.00	0.00	8.00
Financing Activities - Net Cash Flow	(155.00)	(1320.00)	(1002.00)	(2706.00)	(2411.00)
Exchange Rate Effect	0.00	0.00	0.00	0.00	(8.00)
Cash and Cash Equivalents - Change	**40.00**	**(130.00)**	**(83.00)**	**178.00**	**2041.00**

Rio Tinto
Common Size Income Statement

	2001	2002	2003	2004	2005
Sales (Net)	$8,281.00	$8,546.00	$9,347.00	$11,958.00	$19,275.00
Cost of Goods Sold	61.99%	66.50%	73.23%	70.86%	58.85%
Gross Profit	**38.01%**	**33.50%**	**26.77%**	**29.14%**	**41.15%**
Selling, General, & Admin Expenses					
Operating Income Before Depreciation	38.01%	33.50%	26.77%	29.14%	41.15%
Depreciation, Depletion, & Amortiz	11.22%	11.16%	10.76%	10.07%	6.92%
Operating Income After Depreciation	26.80%	22.34%	16.01%	19.07%	34.23%
Interest Expense	6.04%	4.36%	4.02%	2.62%	1.64%
Non-Operating Income/Expense	11.17%	10.17%	9.07%	10.60%	5.34%
Special Items	-7.98%	-12.80%	1.35%	3.03%	0.02%
Pretax Income	23.95%	15.34%	22.40%	30.07%	37.94%
Income Taxes - Total	8.67%	8.28%	6.07%	7.03%	9.41%
Minority Interest	2.25%	-0.56%	0.20%	-0.49%	1.47%
Income Before Extraordinary Items & Discontinued Operations (EI&DO)	13.03%	7.62%	16.13%	23.52%	27.06%
Extraordinary Items	0.00%	0.00%	0.00%	0.00%	0.00%
Discontinued Operations	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income (Loss)	**13.03%**	**7.62%**	**16.13%**	**23.52%**	**27.06%**
Income Before EI&DO	13.03%	7.62%	16.13%	23.52%	27.06%
Preferred Dividends	0.00%	0.00%	0.00%	0.00%	0.00%
Available for Common Before EI&DO	13.03%	7.62%	16.13%	23.52%	27.06%
Common Stk Equivalents - Savings					
Adjusted Available for Common	13.03%	7.62%	16.13%	23.52%	27.06%

Rio Tinto
Common Size Balance Sheet

	2001	2002	2003	2004	2005
ASSETS					
Cash & Equivalents	3.52%	3.12%	2.60%	1.82%	8.51%
Receivables - Total (Net)	9.02%	7.39%	7.40%	7.04%	8.08%
Inventories - Total	7.56%	7.43%	7.40%	7.88%	6.87%
Prepaid Expenses	3.67%	3.47%	2.84%	2.75%	0.36%
Current Assets - Other	0.00%	0.22%	0.07%	0.16%	1.28%
Current Assets - Total	**23.76%**	**21.64%**	**20.31%**	**19.65%**	**25.10%**
Plant, Property & Equip (Gross)	106.64%	115.74%	119.04%	123.97%	109.82%
Accumulated Depreciation	47.23%	55.16%	55.65%	59.01%	50.70%
Plant, Property & Equip (Net)	59.41%	60.58%	63.39%	64.96%	59.12%
Investments at Equity	11.14%	12.75%	10.98%	10.96%	6.67%
Investments and Advances - Other	0.48%	0.00%	0.40%	0.00%	1.02%
Intangibles	5.21%	5.02%	4.92%	4.43%	4.16%
Deferred Charges	0.00%	0.00%	0.00%	0.00%	0.00%
Assets - Other	0.00%	0.00%	0.00%	0.00%	3.92%
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%	100.00%
LIABILITIES	0.00%	0.00%	0.00%	0.00%	0.00%
Accounts Payable	3.02%	2.89%	3.06%	3.69%	3.54%
Notes Payable	15.49%	9.45%	7.62%	0.26%	0.04%
Accrued Expenses	1.93%	1.78%	1.58%	1.93%	2.19%
Taxes Payable	1.69%	1.84%	1.04%	0.74%	3.31%
Debt (Long-Term) Due In One Year	4.06%	7.21%	1.49%	2.87%	3.99%
Other Current Liabilities	3.94%	3.26%	3.21%	3.71%	2.98%
Total Current Liabilities	30.13%	26.43%	18.00%	13.20%	16.06%
Long Term Debt	13.08%	13.40%	15.98%	12.98%	9.34%
Deferred Taxes (Balance Sheet)	4.37%	5.20%	5.81%	5.47%	7.37%
Investment Tax Credit	0.00%	0.00%	0.00%	0.00%	0.00%
Minority Interest	4.22%	3.85%	4.17%	3.64%	2.65%
Liabilities - Other	11.62%	14.19%	14.37%	15.76%	14.42%
TOTAL LIABILITIES	**63.42%**	**63.07%**	**58.32%**	**51.06%**	**49.84%**
SHAREHOLDERS' EQUITY	0.00%	0.00%	0.00%	0.00%	0.00%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%
Common Stock	4.52%	4.80%	5.15%	5.01%	4.00%
Capital Surplus	8.16%	7.97%	6.76%	6.42%	6.33%
Retained Earnings (Net Other)	23.91%	24.16%	29.77%	37.52%	39.82%
Less: Treasury Stock	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL SHAREHOLDERS' EQUITY	**36.58%**	**36.93%**	**41.68%**	**48.94%**	**50.16%**
TOTAL LIABILITIES & EQUITY	100.00%	100.00%	100.00%	100.00%	100.00%

Rio Tinto
Common Size Cash Flows Statement

	2001	2002	2003	2004	2005
INDIRECT OPERATING ACTIVITIES					
Income Before Extraordinary Items	13.07%	7.62%	21.28%	18.29%	24.09%
Depreciation and Amortizations	11.26%	11.17%	14.20%	7.83%	6.16%
Extraordinary Items and Disc. Operations	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred Taxes					
Equity in Net Loss (Earnings)	7.85%	7.13%	8.44%	5.38%	-0.81%
Sale of PPEq and Investments - Loss (Gain)	0.00%	0.00%	0.00%	0.00%	-1.49%
Funds from Operations - Other	2.36%	3.75%	-14.07%	-9.22%	6.43%
Receivables - Decrease(Increase)					-2.45%
Inventory - Decrease (Increase)	-2.75%	1.00%	-0.61%	-1.16%	-1.15%
Accounts/P and Accrued Liabs - Inc(Dec)	-0.58%	-0.67%	0.93%	1.09%	
Income Taxes - Accrued - Increase(Decrease)					
Other Assets and Liabilities - Net Change	-1.53%	1.85%	2.17%	-0.31%	1.29%
	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Actiities - Net Cash Flow	29.69%	31.85%	32.34%	21.89%	32.07%
INVESTING ACTIVITIES	0.00%	0.00%	0.00%	0.00%	0.00%
Investments - Increase					1.07%
Sale of Investments					0.61%
Short term Investments - Change	-0.22%	2.49%	-1.48%	0.59%	
Capital Expenditures	17.97%	16.63%	23.47%	15.32%	11.79%
Sale of Property Plant and Equipment	0.30%	0.19%	0.27%	0.26%	
Acquisitions					
Investing Activities - Other	-9.44%	-3.97%	5.31%	11.33%	0.77%
Investing Activites - Net Cash Flow	-27.32%	-17.92%	-19.37%	-3.15%	-11.47%
FINANCING ACTIVITIES	0.00%	0.00%	0.00%	0.00%	0.00%
Sale of Common and Preferred Stock	0.08%	0.18%	0.47%	0.21%	0.48%
Purchase of Common and Preferred Stock	0.00%	0.00%	0.00%	0.00%	4.05%
Cash Dividends	9.73%	11.10%	11.75%	5.89%	5.27%
Long Term Debt - Issuance	7.77%				1.79%
Long Term Debt - Reduction		4.79%	2.85%	11.92%	4.12%
Current Debt - Changes					
Financing Activities - Other	0.00%	0.26%	0.00%	0.00%	0.04%
Financing Activities - Net Cash Flow	-1.88%	-15.46%	-14.14%	-17.59%	-11.14%
	0.00%	0.00%	0.00%	0.00%	0.00%
Exchange Rate Effect	0.00%	0.00%	0.00%	0.00%	-0.04%
	0.00%	0.00%	0.00%	0.00%	0.00%
Cash and Cash Equivalents - Change	0.48%	-1.52%	-1.17%	1.16%	9.43%