



## Wonder returns also delivers glittering prizes the Board

<b>Company/ASX Code</b>	Rio Tinto/RIO
<b>AGM date</b>	Thursday 7 May 2020
<b>Time and location</b>	09:30 QLD Virtual Meeting
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Duncan Seddon
<b>Pre AGM Meeting?</b>	Yes, via conference call with the chairman

The individual involved in the preparation of this voting intention has a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

#### Governance and culture

In the past few years RIO has been exemplary in its approach and execution of corporate governance. Unfortunately this outstanding performance has drifted and may be a threat to the long term interests of Australian shareholders.

We have long held the view that independent directors should not be beholden to other companies for their time commitments and duties. ASA has long opposed directors who hold full time executive positions in significantly sized other companies or organisations. In an effort to improve the company's status in promoting women to corporate boards (AR p89), the company propose to elect three candidates with apparently full-time positions in other listed companies or major organisations..

RIO has reduced the number of board meetings - there were only seven in the last year (AR p90). The board NEDs are well paid with typical fees over US\$250,000 (AR p132) and are effectively hand-picked by the chairman. Since the board is responsible for the company's oversight and performance on behalf of the shareholders we regard the move to fewer meetings as a retrograde step, though we were advised that each meeting is scheduled to be substantially longer in time and scheduled to coincide with other Board development activities.

We are concerned that the board (apart from the chairman) is devoid of expertise in mining operations. We note that in the past year the Board has been apprised of the technical issues of block cave mining in depth by the RIO management (AR p94). We are aware that this is a relatively recent innovation in underground mining and trust that the Board is taking external expert advice in the area, to validate the subject matter expertise of their internal experts in this area. Whilst we applaud the deep dive Board training initiatives,

which aim to get the whole Board up to an elementary level on many aspects of mining operations, we feel that having more mining operational expertise in the Boardroom is required. Interestingly, the Board skills matrix on P99 of the Annual Report agrees with our assessment that there is no-one with subject matter expertise in mining on the Board.

Climate change is also a major focus issue for the company and the board (AR p65). RIO proposes to spend significant amounts of money in China with a JV with Bauwu steel and Tsinghu University on reducing emissions from steel production (RIO does not make steel). Furthermore, a major source of RIOs emissions are from Australian alumina and aluminium manufacturing (Pacific Aluminium) and it is not clear if the company intends to close these operations in order to reach its climate change objectives.

### **Financial performance**

This year's financial performance has been outstanding with increasing dividends, special dividends and buybacks.

RIO's revenue is dominated by the Pilbara iron ore operations (53% of total, US\$24 billion out of a total of US\$46 billion). The EBITDA figures are even more startling, illustrating where the company's wealth is being generated. The Pilbara iron ore operations contributed over 73% of the EBITDA figure (\$US16 billion out of \$US22 billion). Yet capital expenditure was only 30% of the total with continuing large sums being spent on copper (36% of the total US\$ 5.8billion).

### **Summary (data from CommSec)**

(As at FYE)	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$billion)	11.433	19.323	11.233	6.381	-1.185
Share price (\$)	97.99	73.40	74.76	57.19	41.68
Dividend (cents)	632	779	372	235	294
TSR (%)	40.40	9.30	32.50	40.70	-18.6
EPS (cents)	1045	720	628	390	415
CEO total remuneration, actual (GBP)	5.796	4,551	N/A		

For 2019, the CEO's total actual remuneration was **125 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics). RIO reports that the CEO's remuneration is 66 times that of the average RIO employees earnings.

Note - For November 2019, the Full-time adult average weekly total earnings (annualised) was \$86,252 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

<b>Item 2</b>	<b>Approval of Directors Remuneration Report: Implementation report</b>
<b>ASA Vote</b>	<b>FOR</b>

### Summary of ASA Position

This resolution is required for UK law purposes.

<b>Item 3</b>	<b>Approval of Directors' Remuneration Report</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

CEO rem. framework	Target GBP	% of Total	Max. Opportunity GBP	% of Total
Fixed Remuneration	1,484	48.9%	1,484	20%
STI - Cash	342	11.3%	1,138	15%
STI - Equity	341	11.3%	1,138	15%
LTI	865	28.5%	3,845	50%
Total	3,032	100.0%	7,605	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

<b>Item 4</b>	<b>Approval of Potential Termination Benefits</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

These rise out of previously agreed employment contracts and remuneration policy which we have supported.

<b>Item 5</b>	<b>To Elect Hinda Gharbi as a director</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Hinda Gharbi is vice president of Reservoir and Infrastructure at Schlumberger Limited, an oilfields services provider, and has 24 years of experience in engineering, functional and line management. As a fulltime employee of a large corporation, we are concerned that she will have insufficient time for the RIO Board requirements and does not meet the ASA guideline of adequate workload. We will oppose her election unless she retires from her current position at Schlumberger.

<b>Item 6</b>	<b>To elect Jennifer Nason as a director</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Jennifer has over 30y experience in corporate finance and capital markets, more recently with JP Morgan as a practice leader in Telecommunications Technology and Media. She is a full time employee in a senior position of a large corporation, as well as a Director of the Australian American Association. She therefore does not meet the ASA guideline for acceptable workload and we will oppose her election unless she retires from her current position at JP Morgan.

<b>Item 7</b>	<b>To elect Ngaire Woods as a director (effective 1st September)</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Ngaire Woods is a professor of economic governance at Oxford University. She is also a Director of two foundations, dean of the school of governance at Oxford and trustee of the Rhodes trust. . As a fulltime employee of Oxford University, coupled with her substantial responsibilities, she does not meet the ASA guideline for acceptable workload and will oppose her election unless she retires from her current position at Oxford.

<b>Item 8</b>	<b>To re-elect Megan Clark as a director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Megan Clark, an Australian citizen, is the ex head of the CSIRO and prior to that was with BHP as the VP technology. She has a background in economic geology. She is chair of the company's sustainability committee. She is a director of CSL and CARE Australia and is the Head of the Australian Space Agency since July 2018. The latter role appears to be a full time position in the DISER. She is potentially overloaded.

Clark earned US\$284,000 in fees and owns 5,770 shares in LTD valued at about \$500k.

<b>Item 9</b>	<b>To re-elect David Constable as a director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

David Constable stands for election at this year's AGM. He is the ex-CEO of Sasol and has wide international engineering experience with Fluor Corporation. He is well suited for the board. He has two external directorships (Anadarko Petroleum and ABB Ltd) and is not considered to be overloaded.

He was appointed in late 2016 and earned \$275,000 in 2019 and has 2,547 shares in the company.

<b>Item 10</b>	<b>To re-elect Simon Henry as a director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Simon took up his appointment in July 2017. He is the ex CFO of Shell and would be an asset to the company. He has external directorships with Lloyds PLC and PetroChina and is on several advisory panels. He is not overloaded.

He earned US\$ 245,000 in fees and as yet only small holding of 500 PLC shares in the company. We would like to see this investment increase over the next year.

<b>Item 11</b>	<b>To re-elect Jean-Sebastien Jacques as a director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

Jean-Sebastien Jacques was appointed to the board in March 2016 and became CEO in July 2016. Prior to this he was CEO of the copper and coal group. He has no external appointments other than as a board member of several trade organisations.

He has 97,603 PLC shares valued at \$9 million and earned US\$7 million as CEO.

<b>Item 12</b>	<b>To re-elect Sam Laidlaw as a director</b>
<b>ASA Vote</b>	<b>For</b>

### **Summary of ASA Position**

As a solicitor with extensive experience in the oil and gas industry he took up a board position in February 2017. He is a director of two companies (HSBC and Neptune Petroleum) and is not considered to be overloaded. We supported his election to the board last year.

Sam earned \$273,000 in fees and has 7,500 shares in PLC valued at about \$700k.

<b>Item 13</b>	<b>To re-elect Michael L'Estrange as a director</b>
<b>ASA Vote</b>	<b>Against</b>

### **Summary of ASA Position**

Professor L'Estrange is an Australian citizen whose principal work experience has been in the public sector, coupled with a directorship of Qantas Ltd. L'Estrange has served as high commissioner to the UK and earlier as a policy advisor to various Liberal opposition leaders prior to becoming Secretary to Cabinet under John Howard. He has the distinction of gaining two Blues for cricket whilst on a Rhodes scholarship to Oxford. He was first elected to the board in 2014.

Michael L'Estrange earned \$US\$201,000 in fees and owns only 3,103 shares in LTD valued at about \$300k. Since he was appointed in 2014 we would expect him to have accumulated considerably more shares than this. Given the lack of subject matter expertise in both mining and mining operations as well as in Technology/digital on the Board, we feel this is the one nominee Director with the least relevant experience, and therefore should stand aside to make way for a candidate with a more suitable background in mining (preferably) or digital technologies.

<b>Item 14</b>	<b>To re-elect Simon McKeon as a director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Simon McKeon is a solicitor specialising in financial services law. government and charities. He was formally the chairman of AMP. Simon McKeon is Chancellor of Monash University and serves on the boards of Spotless and NAB. He was appointed in January 2019.

He earned US \$284,000 in fees and owns 10,000 LTD shares.

<b>Item 15</b>	<b>To re-elect Jacob Strausholm as a director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Jakob Strausholm is the company CFO, appointed in 2018. We would normally vote against a second executive on the board, however, we note it is common practice for UK corporate enterprises to have both the CEO and CFO as full board members. Although we do not support this for Australian companies we make an exception for dual listed entities such as RIO. He has no other commitments.

Jakob owns 15,102 PLC shares and earned US2.5 million as CFO

<b>Item 16</b>	<b>To re-elect Simon Thompson as a director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Simon Thompson was elected to the board in 2014 and is now chairman of the company. He is now fully loaded with the chairmanship the 3i Group PLC. Interestingly Simon has a degree in geology and extensive work experience with Anglo American (base metals and aggregate) and fitted our requests for a mining expert on the Board when he was first elected. We have supported his election since 2014.

Simon Thompson earned \$US\$934,000 in fees and owns 7,458 shares in PLC valued at \$US700,000.

<b>Item 17</b>	<b>Appointment of auditors of Rio Tinto plc and RIO Tinto Ltd</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

This is a procedural vote required under UK law and hence required to be passed as part of the Dual Listing structure by Rio Tinto Limited.

<b>Item 18</b>	<b>Remuneration of auditors</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Auditor remuneration is reasonable, slightly lower than last year at \$19.2 million (2018, \$21.1 million) of which the audit cost was \$16.4 million (2018, \$16.7 million).

<b>Item 19</b>	<b>Authority to make political donations</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

The ASA is opposed to political donations and the company states that it is Rio's policy not to make political donations. However, UK law in this matter may embrace donations to trade organisations and the like which may involve them (the trade organisations) in political activities. This resolution may have its merit in making the point that the shareholders sanction the company that it can donate to such trade organisations which conduct lobbying and other quasi-political activity on behalf of an industry sector (e.g. aluminium industry, mineral council etc.) in which the company has a relevant interest. We supported this motion last year and will do so again.

<b>Item 20</b>	<b>Amendments to Rio Tinto's plc's articles of association and Rio Tinto Limited's constitution - general updates and changes</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

As time goes on, there are several changes to laws and rules in the two jurisdictions (UK, Australia) within which the Company operates. The objective of this motion is to align as far as possible the operating rules of the UK and Australian arms of the company so as to meet these changes. There is no reason to oppose this.

<b>Item 21</b>	<b>Amendments to Rio Tinto's plc's articles of association and Rio Tinto Limited's constitution - hybrid and contemporaneous hybrid meetings</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

This resolution aims to allow the company to use modern Internet techniques to conduct meetings more efficiently given the geographic separation of the two arms of the company. In this time of the COVID-19 this resolution is apposite.

<b>Item 22</b>	<b>Renewal of off-market and on-market share buy-back authorities</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

This capital management initiative is generally positive for shareholders however it will cause some loss of franking credits to Australian resident shareholders. We have voted against this in the past but supported the resolution last year. We support the resolution again this year.

<b>Item 23</b>	<b>Requisitioned resolution to amend our company's constitution</b>
<b>ASA Vote</b>	<b>Against</b>

#### **Summary of ASA Position**

This is proposed by an activist group and only applies to Rio Tinto Ltd. The resolution seeks to allow shareholders to express an opinion at an AGM by a resolution. We do not see the need for this and could make meetings unmanageable with many resolutions on a variety of matters.

<b>Item 24</b>	<b>Requisitioned resolution on emission targets</b>
<b>ASA Vote</b>	<b>Against</b>

#### **Summary of ASA Position**

We see this entirely within the role of the executive and the board who deliver comprehensive details of the company's emissions reduction strategy and targets and there is no need for extra reporting or unwieldy third party analysis.



#### **ASA Disclaimer**

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