



**ANNUAL GENERAL MEETING OF RIO TINTO LIMITED**

<b>Company/ASX Code</b>	Rio Tinto/RIO
<b>AGM date</b>	Thursday, 9 May 2019
<b>Time and location</b>	Grand Ballroom, The Westin Perth 480 Hay Street Perth WA
<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 with Chair

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

**Summary of ASA Position**

**Financial performance including dividends and shareholder returns**

This year has seen the company consolidate the large cash flow position of last year with increased profits and returns to shareholders. The company has consolidated its portfolio of operations with sales of various operations and all of its coal business. The cash generated has been substantially returned to shareholders in the form of buy-backs and increased dividends, including a special dividend. These actions have helped transfer some of the large franking-credits in the company accounts to shareholders.

On the statistics (my figures), Rio has still a good operating margin at 40%, but depreciation charges relative to gross profit (GP) are 30% and interest charges are low (below 5% relative to GP). Net profit after tax (NPAT) relative to sales is healthy at 34%. The current ratio is low (54%) and receivables relative to sales are below 10%. These metrics indicate that Rio may be in a position to borrow significant sums to fund acquisitions. Despite major cuts to capital expenditure this is still high relative to GP (30%).

This is a great result and the high level of dividends being paid has rewarded shareholders.

**Key events**

Overshadowing the improvement in fortunes, the key event has been (and still is) an investigation into bribery and corruption at the company's Simandou's operations in Guinea. Regulatory

authorities in UK, USA and Australia have been informed and each is conducting independent investigations of the allegations. Simandou is regarded as the world's largest undeveloped iron ore province. The company is still in negotiations for the disposal of this asset to Chinalco, the company's largest shareholder. There is also ongoing litigation by the SEC against former directors and the company over the Riversdale purchase and the timing of subsequent write-downs. Clearly there is a long way to go in this.

Recently the company has sold its interest in Grasberg in Indonesia. This mine operated in partnership with Indonesian interests and Freeport-Moran. The Norwegian pension fund (widely regarded as a leader in Environmental Social and Governance (ESG) investment) stated that Rio's part ownership of this mine was a reason avoid investments in Rio. Since Rio has now divested itself of coal we will have to see if this results in a change in position of the Fund regarding its investments in Rio.

### **Key Board or senior management changes**

The past two years has seen a complete change of the management team and significant changes to the board.

One point of concern is that substantially all of the operational mining expertise is now confined to the executives and the chairman. There is no independent director with direct operational mining expertise. When this occurred in prior years, the company recorded massive destruction of shareholder value. We will continue to press for an independent director with operational mining experience.

Rio Tinto has staked a very substantial amount on the success of the Oyu Tolgoi project in Mongolia – the annual report discloses operating assets of US\$6 billion for this project and indicates that previous plans showing generation of free cash flow for the first time in 2022 are likely to require further outward revision to a later date (see Turquoise Hill's annual 2017 report "[Made by Mongolia](#)"). With reserves and resources totalling 6.3mt, these allow for only 6.9 years of mine life. We plan to ask for more detail about the difficult ground conditions referred to in the annual report.

A major consequence of the change to the board and the executive team is a declared focus on providing minerals for renewable energy, particularly copper and more generally an embracement of progressivism. To the latter end the company has declared it is no longer interested in fossil fuel minerals and a declaration that its operations will see increasing use of renewable fuels across its operations. The company is promoting the fact that its use of renewable energy exceeds 71%. However, there are certain risks with this strategy which do not appear to be fully appreciated (or articulated) in the company's risk report.

### **ASA focus issues**

With the imminent resignation of Anne Godbehere, female representation on the board has now fallen to 2 out of 10 which *is* below our target of 30%.

The rise in the share price last year saw many of the board members improve the company's target for shareholdings by non-executive directors (NEDs).

**Summary** (data from COMMSEC expressed in A\$)

(As at FYE)	2018	2017	2016	2015
NPAT \$m)	19,323	11,233	6,381	- 1,185.3
UPAT \$m)	12,468	11,301	7,048	7,565.0
Share price (\$)	94.7	72.3	59.9	44.71
Dividend (cents)	779.3	371.8	234.9	294.3
TSR (%)	9.3	62.5	40.8	-18.6
EPS (cents)	720.0	628.0	389.7	414.6
CEO total remuneration, actual ( <b>GBP</b> ) (data from annual report)	4.289	3.821	3.120	*A\$9.141 (S Walsh)

For 2018, the CEO's total actual remuneration expressed in A\$ as \$7.663m was 88.4 times the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Note - For November 2018, the Full-time adult average weekly total earnings (annualised) was \$86,642

<b>Item 2</b>	Approval of Directors Report on Remuneration and Implementation Report
<b>ASA Vote</b>	<b>For</b>

**Summary of ASA Position**

As last year, the company has presented shareholders with extensive remuneration reporting and two resolutions on remuneration. This is partly the consequence of the dual listing of the company in the UK and Australia and the necessity of complying with different approaches to remuneration reporting and shareholder resolution requirements. Overall the reports are clearly written and are comprehensive as to the approach and consequences of the remuneration policies. This resolution is required under UK law and is advisory.

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

### Summary of ASA Position

This resolution is of primary concern to Australian shareholders since it forms the basis of a two strikes policy. However, like other dual listed companies, the two strikes policy with associated resolution to spill the board if there are two strikes is meaningless since the entire board stands for re-election every year anyway.

The extensive and clear reporting is to be welcomed. As in the past we remain critical of the report because the short term incentive (STI) payments are too high relative to the executives' base salary. Furthermore, the long-term incentive (LTI) awards are paid on relative total shareholder return (TSR) rather than absolute TSR which means that executives can get rewarded even when shareholders lose.

This year the company's fortunes have improved again which has flowed through to higher short term incentive payments and some vesting of the LTI awards. STI was limited by safety issues (3 fatalities) at several sites but still generated very substantial returns for most executives with total cash bonuses of 53% of base salary (compared to 64% in 2017). Bonus deferred shares, awarded on a 50/50 basis with cash bonuses but measured to reflect the cost to RT of the bonus as referenced to share price at balance date, increased from 38% to 49% of base salary during 2018. (These percentages relate to those executives who remained in the same position for both financial years and are as a result of converting their remuneration from the currency of their employment to US currency at each balance date, so reflect the strengthening of the US\$ in many instances).

The CEO base salary increased 6.1% over last year and his total earnings as determined by accounting standards rose to GBP 4.289M from GBP 3.821 for 2017, an increase of 12.2%. As disclosed in the table above, underlying earnings rose 10.3% in the same period. The remuneration committee has access to information about international levels of remuneration for senior executives to which we do not, and is in a better position than ASA to judge whether remuneration levels are appropriate to retain key executives. Whilst remuneration levels are high, we note the competitiveness of large international companies for top executives and have assessed the overall remuneration report as acceptable given shareholder rewards.

<b>Item 4</b>	Elect Dame Moya Greene as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Moya Greene is a lawyer with experience working for the Canadian Government in the Canadian Ministry of Transport. She became head of Canada Post Corporation and then the CEO of Royal Mail from 2010 to 2018. She is therefore well versed in transport logistics. She is a non executive director of Easy Jet PLC and is a member of the board of trustee of the Tate and the National Gallery. She is not overloaded in terms of ASA policy.

She has been paid GBP 70k and owns 2618 shares in PLC after becoming a director in September 2018.

<b>Item 5</b>	Elect Simon McKeon AO as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Simon McKeon is a lawyer who had worked for the Macquarie Group for 30 years prior to becoming chairman of AMP Limited and the CSIRO. He has also served as past president of the Australian takeovers panel. He is Chancellor of Monash University and a non executive director of the Spotless group. He is not overloaded in terms of ASA policy but we will ask Mr McKeon about his role at AMP because the company was heavily criticised during the recent banking royal commission for wide-ranging misconduct as regards financial advisers and insurance business. Mr McKeon was appointed to the AMP board in March 2013 and subsequently appointed chairman of AMP in May 2014, resigning May 2016, and therefore was an AMP director during the period when the serious misconduct arose.

He was appointed in January 2019 and owns 10,000 shares in Rio Tinto Ltd (LTD).

<b>Item 6</b>	Elect Jakob Stausholm as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Jakob Stausholm has replaced Chris Lynch as the CFO in September 2018 and the Rio tradition is that both the CEO and the CFO sit on the board. His past employment has been with Royal Dutch Shell PLC, ISS A/S and the Maersk Group. He has no external appointments. From his appointment in September, he has earned 1 million GBP, 330k of which was for relocation expenses. He has 15,000 shares in Riot Tinto plc (PLC). ASA policy is to normally oppose the appointment of a second executive on the board but recognise that the CFO is often appointed as the finance director on UK domiciled companies. Since RIO is dual listed we will support his election in this instance

<b>Item 7</b>	Re-elect Megan Clark as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Megan Clark, an Australian citizen, is the former chief executive 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 Head of the Australian Space Agency. She is not overloaded in terms of ASA policy.

Megan Clarke earned US\$332,000 in fees and owns 5,245 shares in LTD valued at \$500,000.

<b>Item 8</b>	Re-election of David Constable as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

We voted for the election of David Constable at last year's GM. He is the ex-CEO of Sasol and has wide international engineering experience with Fluor Corporation. He is well suited for the board. He is not overloaded in terms of ASA policy with two external directorships (Anadarko Petroleum - about to be taken over by Chevron - and ABB Ltd.)

He was appointed in November 2016. In 2018 he was paid US\$323,000 and holds 2,547 PLC shares.

<b>Item 9</b>	Re-elect Simon Henry as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

We voted for Simon Henry's election at last year's AGM. Simon is the ex CFO of Shell and is well qualified to be a board member. He has two other directorships at Lloyds PLC and PetroChina and a Member of the UK Defence Board. He is not overloaded in terms of ASA policy. He took up his appointment in July 2017.

In 2018 he was paid US\$224,000 and but owns only 500 shares in PLC at this stage.

<b>Item 10</b>	Re-elect Jean-Sebastien Jacques as a director
<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 is a member of the International Council of Mining and Metals. He would be entitled to 64,785 PLC shares valued at approximately \$6.4 million if all incentive awards vest in due course.

<b>Item 11</b>	Re-elect Sam Laidlaw as a director
<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 overloaded in terms of ASA policy. We will support his election to the board.

In 2018 he was paid US\$237,000 and owns 7,500 shares in PLC values at approximately \$750,000.

<b>Item 12</b>	Re-elect Michael L'Estrange as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Professor L'Estrange is an Australian citizen is a full time employee of the National Security College at the ANU. He is no longer head but holds a professorial position. We have discussed his time commitments with the chairman and believe he is not overcommitted in terms of ASA policy. Prior to this 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 of Cabinet under John Howard. He has the distinction of gaining two Blues for cricket whilst on a Rhodes scholarship to Oxford.

He serves as Director and Deputy Chancellor of the University of Notre Dame, Australia and is on the board of Qantas Ltd.

Mr L'Estrange was first appoint in 2014, earned USD 275,000 in 2018 fees and held 3,103 shares in LTD valued at AUD 300,000 at December 2018. Since he was appointed in 2014 we would expect him to have accumulated more than 5000 shares to equate to one year's fees

<b>Item 13</b>	Re-elect Simon Thompson as a director
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Simon Thompson is fully loaded in terms of ASA policy with the chairmanship of 3iGroup as well as Rio Tinto. Simon has a degree in geology and extensive work experience with Anglo American (base metals and aggregate) and fits our requests for a mining expert. We will be asking how as chair he will maintain his independence as independent director looking after shareholders interests in light of having two executives on build and limited other operational mining experience. We supported his election in 2014 and will support his re-election this year.

Mr Thompson earned US\$852,000 in fees and owns 7,458 shares in PLC valued at approximately \$740,00. He was only appointed as chair in 2018 and would look to further share purchases by him in the coming year to bring his skin-in-the-game up to the level of one year's fees.

<b>Item 14</b>	Re-appointment of auditors
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

We will support the reappointment of PwC as auditors of Rio Tinto PLC. 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. During the year, RT conducted an audit tender and it has been announced that KPMG will succeed PwC as auditors for the 2020 financial year – PwC have audited Rio for sixty years.

<b>Item 15</b>	Remuneration of auditors
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Auditor remuneration is reasonable, at US\$21.1 million (2017 US\$18.8 million) of which the audit cost was \$16.7 million (2017 \$14.3 million). This is another 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 16</b>	Authority to make political donations
<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 or industrial organisations which may be involved in 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. Shareholders should support the company's ability to donate to such organisations.

<b>Item 17</b>	Renewal of off-market and on-market buyback authorities
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

We have voted against this in the past as we had concerns that this authority might lead to an undue loss of franking credits. However, these have reduced from \$8.5 billion in 2017 to \$6.2 billion in 2018 through dividends and buy-backs and buy-backs are an essential tool for good capital management. Accordingly, we supported the resolution last year and we will continue to support the resolution this year.



<b>Item 18</b>	Requisitioned resolution to amend our company's constitution
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

This resolution has been requested by an advocacy group, Market Forces, concerned with the company's approach to climate change. The resolution is not endorsed by the board. Whilst, on the face of it, a resolution to increase shareholder power may appear beneficial to shareholders, under the existing framework, shareholders who wish to raise an issue must propose a constitutional amendment in order to provide for such a power. We are reluctant to vote in favour of changing company constitutions – our preference is for a public policy consultation on whether there should be a right to more non-binding shareholder resolutions.

<b>Item 19</b>	Requisitioned resolution on transition planning disclosure
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

This resolution is contingent on passing the previous resolution.

*Shareholders request that the company, in annual reporting from 2020, set out transition plans consistent with the goal of the Paris Agreement to limit global warming to 1.5°C. Plans should include short-, medium- and long-term targets to reduce scope 1, 2 and 3 greenhouse gas emissions, and detailed strategies to meet these targets.*

*This information should describe how capital expenditure decisions will align to the goals of the Paris Agreement, and how executive remuneration will incentivise adherence to the transition plans.*

The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

#### ASA Disclaimer

*This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:*

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

*This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.*