

# Remuneration Report: Remuneration Policy

## Remuneration Policy introduction

This Remuneration Policy applies to our executive and non-executive directors and to the chairman. In accordance with Australian law, it also sets out the broad policy principles that apply to members of the Executive Committee who are not directors.

Shareholders should note that this Remuneration Policy is binding only in so far as it relates to directors.

## Our remuneration policies, principles and practices

Our first priority is to spend remuneration resource wisely. We want our pay policies to be regarded as fair by shareholders and employees alike. Although we believe that our Remuneration Policy is fit for purpose, the Committee retains the discretion to override unforeseen and inappropriate mechanistic outcomes.

High-quality people, who are capable of managing and growing the business, are essential to generate superior returns for our shareholders. Rio Tinto operates in global and local markets where it competes for a limited pool of talented executives and our compensation strategy is therefore designed to attract and retain the people that we need. We recognise that remuneration represents just one of the factors that encourage the attraction and retention of talent. We also seek to engage our employees over the long term, to foster diversity, and to provide challenging work and development opportunities. Our people strategy is underpinned by our commitment to safety and our other core values of respect, integrity, excellence and teamwork.

## Competitive remuneration linked to performance and shareholder value creation

Remuneration is linked to performance targets over both the short and long term, to ensure that executive rewards are aligned to the delivery both of short-term priorities and long-term sustainable growth in shareholder value. In order to assess the competitiveness of the packages we offer, we benchmark ourselves against other companies in the FTSE30 (excluding financial services companies), which typically have similar global reach and complexity, and other international mining and natural resources companies. The outcomes of these benchmarking exercises form just part of our consideration of the appropriate level of remuneration packages, but we would not expect either base salaries or the expected outcome of our short- and long-term incentive plans to deviate markedly from the median of these comparator groups. The actual outcome will, of course, depend on business and individual performance.

We take salary increases in the broader employee population into account in determining any change to the base pay of executives and regularly consult with shareholders on the design of our short- and long-term incentive plans to ensure that they are aligned with shareholder interests and priorities. We do not formally consult with our employees on the Remuneration Policy, but approximately 40 per cent of the workforce are shareholders, through participation in our employee share plans and therefore have the right to vote on the Remuneration Report. Employees are also free to ask questions or express opinions through our normal employee communications channels.

Performance under the Short-Term Incentive Plan (STIP) is measured over one year based on a balanced scorecard including safety, financial and individual targets. We recognise the importance of ensuring these targets are achieved in the right way, and aligned to the Company's values. Therefore in considering STIP outcomes, we also consider the extent to which outcomes are in accordance with our values. Fifty per cent of the STIP for executives is delivered in deferred shares that vest after three years.

Performance for performance share awards (PSA) under the Long-Term Incentive Plan (LTIP) is measured over five years and awards are typically delivered in shares. From 2018, performance will be measured by reference to the total shareholder return (TSR) of Rio Tinto relative to the EMIX Global Mining Index (formerly the Euromoney Global Mining Index) (50 per cent) and the MSCI World Index (50 per cent), reflecting the fact that the company competes for capital with both mining companies and other global companies. IHS Markit purchased from Euromoney Indices all of its benchmark index intellectual property assets and subsequently rebranded those indices as the EMIX Indices. The relative EBIT margin improvement measure has been removed following consultation with major shareholders and feedback from employees, in order to achieve greater simplicity, transparency and alignment.

A new Equity Incentive Plan (EIP) was approved by shareholders at the AGMs in 2018. This allows both PSA and the deferred element of the STIP as described herein to be granted under a single plan with sufficient flexibility to reflect any future changes in the Group's Remuneration Policy. Participants below the Executive Committee level will also participate in LTIP awards under the EIP. Deferred dividends are accumulated under the EIP.

Options are no longer granted, but existing vested options may be exercised up to ten years after their grant. Our share ownership policy requires executives to build up and maintain a material shareholding in the company as described in the Implementation Report.

### Executive remuneration structure – policy table

The total remuneration package is designed to provide an appropriate balance between fixed and variable components, with an emphasis on long-term variable pay. The remuneration structure for executives, including the relationship between each element of remuneration and Group performance, is summarised below. Complementary remuneration structures are designed for other employees, drawing on these strategies and policies.

Further details on the key performance indicators (KPIs) used to assess Group performance are provided in the Strategic report.

Any commitment made before this Remuneration Policy takes effect or before an executive became or becomes a director will be honoured even if it is not consistent with this or any subsequent Remuneration Policy.

### Remuneration arrangements – Fixed

### Link to Group performance and strategy

#### Base salary

- Base salary provides the main fixed element of the remuneration package.
- Base salaries are reviewed annually, with a maximum individual increase of nine per cent, or inflation if higher, per annum. An individual increase may be higher than this for executives who are not directors in the circumstances described below.
- Any increase is generally aligned with the average base salary increases applying to the broader employee population unless there were significant changes to an individual's role and/or responsibilities during the year. Any increases are determined with reference to underlying Group and individual performance, global economic conditions, role responsibilities, an assessment against relevant comparator groups and internal relativities.
- An increase above the maximum noted above for executives who are not directors may be made in the event of internal promotion or increase in responsibility or where the executive's base salary is significantly below market positioning.
- Benchmarking is undertaken periodically but not annually, and our intention is to apply judgment in evaluating market data.

- We pay competitive salaries to hire, motivate and retain highly competent people.

#### Pension or superannuation

- Employment benefits typically include participation in a pension plan, superannuation fund, or a cash allowance to contribute to a personal pension or superannuation fund, which are aligned with the arrangements for the broader workforce of the country of residence.
- For appointments made from 1 June 2018, the maximum level of company contribution to an individual executive director's scheme annually is 25 per cent of base salary. For appointments prior to 1 June 2018 the maximum was 35 per cent.

- We provide locally competitive post-employment benefits in a cost-efficient manner in order to hire and retain.

#### Other benefits

- Other benefits may include, but are not limited to, private healthcare cover for the executive and their dependents, company car or allowance, car parking, life insurance, accident insurance, provision of company-provided transport/chauffeur, professional advice, participation in local flexible benefit programmes and certain other minor benefits (including modest retirement gifts in applicable circumstances, occasional spouse travel in support of the business and any Rio Tinto business expenses which are deemed to be taxable and where the company has paid the tax on their behalf).
- Secondment, relocation and localisation benefits (for example, housing, tax equalisation, cost of living allowance, the payment of school fees, periodic visits home for the executive and their family and where relevant, localisation payments) may also be made to and on behalf of executives living outside their home country. Examples of these types of payments are set out in the Implementation Report.
- Other benefits are paid at cost and, given the nature and variety of the items, there is no formal maximum level of company contribution.

- We provide competitive other benefits in a cost-efficient manner in order to hire and retain.

## Remuneration arrangements – Performance-related (At risk)

## Link to Group performance and strategy

### Short-Term Incentive Plan (STIP)

- 25 per cent of maximum is awarded for threshold performance; 50 per cent for target; and 100 per cent for outstanding. Between threshold and target, and between target and outstanding, the award is pro-rated on a straight-line basis. In the case of executive directors, the percentage award is multiplied by 1.2. The maximum award is capped at 200 per cent of base salary for all executives. Any outcome from the formulaic STIP calculation is subject to the exercise of discretion by the Committee.
- A scorecard based on the Group's five priorities is established for each executive at the commencement of the financial year. The measures and the relative weightings are selected by the Committee in order to drive business performance for the current year, including the achievement of financial, safety and other individual business outcomes that are priorities for the financial year in question. At least 50 per cent of the measures will relate to financial performance and a significant component will relate to safety performance.
- The measures, weightings and targets are reviewed annually and are included either prospectively or retrospectively each year in the Implementation Report. The Committee retains flexibility to determine the measures, weightings and targets as appropriate, based on the outcomes of its annual review.
- We expect to disclose the measures, weightings and targets for safety goals at the beginning of each year. In the area of financial and individual goals, we will, at the beginning of each year, disclose the measures and weightings only, because we regard the targets as commercially sensitive. However, we intend to disclose these targets and outcomes retrospectively. In the rare instances where this may not be prudent on grounds of commercial sensitivity, we will seek to explain why, and give an indication of when they will be disclosed.
- Threshold, target and outstanding performance levels are established for all STIP measures to help drive high levels of business and individual performance.
- The central or "base" plan delivers what the board considers to be target performance. Target performance is intended to be stretching. Probability factors are then applied, based upon a range of potential operating and cost scenarios, to establish the threshold and outstanding performance levels. These threshold (below target), target, and outstanding (above target) levels are determined by the Committee at the beginning of each performance year.
- In making its year-end determination of STIP awards, the Committee seeks to ensure that actual performance is directly comparable to the targets set at the beginning of the year. This may result in adjustments to the targets or to the assessed results being made by the Committee (in particular to take account of events outside management's control), to ensure a like-for-like comparison. Both upward and downward adjustments can be made, with reference to principles agreed by the Committee, to ensure the outcomes are fair.
- Safety KPIs comprise a significant portion of the STIP for executives, and any fatality will have a material impact on the STIP result for all executives.

- STIP focuses participants on achieving demanding annual performance goals, which are based on the Group's five priorities, in pursuit of the creation of sustainable shareholder value.
- We demand that sustainable business practices are adhered to, particularly in the context of safety.
- When reviewing the outcome of the awards under the STIP the Committee will, when evaluating overall safety, financial, Group and individual performance, consider the overall fairness against original expectations and shareholder experience.
- Any discretionary adjustments for directors will be disclosed in the Implementation Report for the financial period.
- [We consider the individual performance of our executives against our values. The way we work outlines how we deliver both our purpose and strategy. It makes clear how all employees should behave, in accordance with our values of safety, team work, respect, integrity and excellence.](#)

### Bonus Deferral

- Fifty per cent of the STIP is delivered in bonus deferred shares under the EIP with the remainder of the STIP delivered in cash with no deferral. Prior to 2018, bonus deferred share awards were made under the Bonus Deferral Plan (BDP).
- The bonus deferred shares vest in the December of the third year after the end of the STIP performance year to which it relates.
- The number of shares that vest is increased by reference to the dividends paid in the deferral period.
- Bonus deferred shares vest on a change of control.
- Given the mandatory nature of the deferral and the absence of performance conditions, bonus deferred shares are treated as "owned" from the award date for the purposes of calculating an executive's shareholding level.
- Malus, claw-back and suspension provisions that apply are set out later in the Remuneration Policy.

- Bonus Deferral ensures ongoing alignment between executives and shareholders through deferral of 50 per cent of STIP awards into Rio Tinto shares.

## Remuneration arrangements – Performance-related (At risk)

## Link to Group performance and strategy

### Performance Share Awards (PSA) under the Long-Term Incentive Plan (LTIP)

- PSA granted under the EIP will be conditional share awards that vest subject to the achievement of stretching performance conditions, comparing Rio Tinto's TSR relative to the [EMIX](#) Global Mining Index (50 per cent) and to the MSCI World Index (50 per cent).
- Full vesting is only achieved if Rio Tinto's relative TSR significantly outperforms the TSR of both indices. The outperformance required for full vesting is considered by the Committee to be very stretching. [The TSR measure excludes stock repurchases on the basis that these would be reflected via our share price.](#)
- The current level of outperformance required for full vesting is 6 per cent per annum over five years. However, for each award the Committee will determine the level of outperformance required against the indices on a per annum basis or on a compounded basis over the five-year period, in order for the whole of the award to vest.
- Each component of the award will be assessed independently. Details of the TSR targets and vesting schedules for the year under review and for the following year will be set out in the Implementation Report each year.
- Awards have a maximum face value of 438 per cent of base salary (ignoring dividend equivalents as described below).
- The awards have been calculated independently by our consultants (Willis Towers Watson) to have an expected value of approximately 50 per cent of face value. Expected value is face value adjusted for the probability of the performance target being met.
- Threshold performance, as explained in the Implementation Report, would result in the vesting of 22.5 per cent of the face value of an award.
- The maximum expected value of PSA is 219 per cent of base salary (ie 438 per cent x 50 per cent). The maximum threshold value is 98.6 per cent of base salary (ie 438 per cent x 22.5 per cent).
- Actual award levels may vary for each executive and are included in the Implementation Report.
- If vesting is achieved, participants are entitled to receive a number of additional shares whose market value reflects the aggregate cash amount of dividends that would have been received had the shares which have vested at the end of the performance period been held throughout the performance period.
- Where permitted by the plan rules, and where the Remuneration Committee so decides, awards may be made or satisfied in cash in lieu of shares.
- Awards and performance conditions may be adjusted to take account of variations of capital and other transactions. Subject to this Policy, performance conditions may also be amended in other circumstances if the Committee considers that a changed performance condition would be a fairer measure of performance.
- If there is a change of control, awards will vest to the extent performance conditions are then satisfied. Unless the Committee determines otherwise, if the change of control happens during the first 36 months from the date of grant of the award, the number of shares that can vest will be reduced pro rata to that 36-months period. The Committee may, alternatively, with agreement of an acquiring company, replace awards with equivalent new awards over shares in the acquiring company.
- The Committee retains the discretion, where circumstances warrant, to amend performance conditions under the relevant plan rules. The Committee will seek to ensure that outcomes are fair and that they take account of the overall performance of the company during the performance period.
- Malus, claw-back and suspension provisions that apply are set out later in the Remuneration Policy.

- PSA are designed to provide a simple and transparent mechanism for aligning executive reward with the execution of an effective business strategy that delivers superior long-term shareholder returns.
- Award levels are set to incentivise long-term performance and to contribute towards the competitiveness of the overall remuneration package.
- Relative TSR has been chosen as the most appropriate measure as it allows for an objective external assessment over a sustained period on a basis that is familiar to shareholders.
- How performance is generated is as important as what level of performance is delivered. Before vesting, the Committee will satisfy itself that relative TSR is an appropriate measure of the underlying performance of the business, and may adjust vesting accordingly.

### Notes to the policy table

The major change to the Remuneration Policy in 2018 is the removal of the relative EBIT margin improvement measure from the PSA. For PSA granted from 2013 until 2017 (under the 2013 Performance Share Plan), conditional share awards vest subject to the achievement of stretching performance conditions, comparing Rio Tinto's performance against:

- One-third: TSR relative to the [EMIX](#) Global Mining Index;
- One-third: TSR relative to the MSCI World Index; and
- One-third: improvement in EBIT margin relative to the global mining comparators which will be listed in the Implementation Report each year.

Each component of the award will be assessed independently. With respect to the EBIT margin measure, in order to ensure that outcomes are fair and that business performance has been appropriately taken into account, the

Committee will consider, on a discretionary basis, any specific, significant, unusual, "below the line" items (eg impairments) reported by Rio Tinto or its peers during the performance period to ensure genuine comparability when determining any level of vesting indicated by third-party data (currently S&P Capital IQ). The application of any such discretion will be disclosed.

Long-term incentive awards made prior to 2018, which may vest should the relevant performance conditions be satisfied, are permitted under this Policy. Details of awards granted prior to 2018, which have yet to vest, including their respective performance conditions, are provided in the Implementation Report.

### Total remuneration opportunity

The following charts provide an indication of the minimum, target and maximum total remuneration opportunity, subject to shareholder approval of the Remuneration Policy for the executive directors, together with the proportion of the package delivered through fixed and variable remuneration. The STIP and PSA granted under the LTIP are both performance-related remuneration. UK legislation requires that these charts are given in relation to the first year in which the Remuneration Policy applies (ie 2018).

The following table provides the basis for the values included in the charts below:

Fixed (stated in £'000)	Base salary(a)	Pension	Benefits(b)	Total fixed
Jean-Sébastien Jacques	£1,110	£276	£58	£1,444
Chris Lynch	£856	£214	£97	£1,167

(a) Base salary is the latest known salary.

(b) The value of benefits is as per the 2017 benefits figure in the single total figure of remuneration tables, as set out in the Implementation Report.

#### Performance-related (At risk)

##### Target STIP and LTIP performance

- A STIP award of 60% of the maximum award (ie 120% of base salary)
- Expected value of 2018 PSA of 50% of face value, calculated as 215% of base salary

##### Maximum STIP and LTIP performance

- A maximum STIP award of 200% of base salary
- Full vesting of 2018 PSA, calculated as 430% of base salary

(a) PSA granted under the LTIP consist of share awards only, measured at 2018 face value. This does not constitute an estimate of the value of awards that may potentially vest with respect to year end 31 December 2022. No assumption has been made for changes in share price or payment of dividends.

(b) No PSA will be granted to the chief financial officer in 2018. However a face value of 430% of base salary, consistent with the award to be made to the chief executive, has been included in the above charts for illustrative purposes.

(c) Further details of the 2018 PSA are disclosed in the 2017 Implementation Report.

### Jean-Sébastien Jacques

Chief executive

#### Potential value of 2018 remuneration package

£'000

Minimum

100%

**Fixed** £1,444

Target

28% 26% 46%

**Fixed** **STIP** **PSA** £5,163

Maximum

17% 26% 57%

**Fixed** **STIP** **PSA** £8,437

### Chris Lynch

Chief financial officer

#### Potential value of 2018 remuneration package

£'000

Minimum

100%

**Fixed** £1,167

Target

29% 25% 46%

**Fixed** **STIP** **PSA** £4,035

Maximum

18% 26% 56%

**Fixed** **STIP** **PSA** £6,560

### Context for outstanding performance

Outstanding business and individual performance is required to achieve the maximum level of remuneration. This comprises:

- outstanding performance against all financial, health and safety, and individual STIP measures; and
- TSR outperformance against both the EMIX Global Mining and MSCI World indices, currently 6 per cent per annum over five years.

The Committee believes that if these levels of reward are achieved by our executives, shareholders will benefit over time from superior share price performance.

### Discretions

The Committee recognises the importance of ensuring that the outcomes of the Group's executive pay arrangements described in this Remuneration Policy properly reflect the Group's overall performance.

The Committee therefore reserves the right to review all remuneration outcomes arising from mechanistic application of performance conditions and to exercise discretion where such outcomes do not properly reflect the experience of shareholders or other stakeholders.

The Committee may at its discretion adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition or divestment, a catastrophic safety or environmental incident, a change in control or other unexpected event) which cause the Committee to determine that the measures are no longer appropriate or in the best interests of shareholders or other stakeholders, and that amendment is required so that the measures achieve their original purpose. Such discretion will be exercised judiciously and clearly disclosed and explained in the Implementation Report.

### Malus, claw-back and suspension

Subject to approval by shareholders at the 2018 AGMs, "malus", "claw-back" and "suspension" provisions will apply to LTIP awards, including awards granted in connection with deferred bonuses under the EIP.

Under both the "malus" and "claw-back" provisions, where the Committee determines that an exceptional circumstance has occurred, the Committee may, at its discretion, reduce the number of shares to be received on vesting of an award, or, for a period of two years after the vesting of an award, the Committee can claw-back value from a participant.

The circumstances under which the Committee exercises such discretion may include, inter alia:

- any fraud or misconduct by a participant or an exceptional event which has had, or may have, a material effect on the value or reputation of any member of the Group (excluding an exceptional event or events which have a material adverse effect on global macroeconomic conditions);
- an error in the Group's financial statements which requires a material downward restatement or is otherwise material or where information has emerged since the award date which would have affected the size of award granted or vested;
- where the Committee determines that the personal performance of a participant, of their product group or of the Group does not justify vesting or where the participant's conduct or performance has been in breach of their employment contract, any laws, rules or codes of conduct applicable to them or the standards reasonably expected of a person in their position;
- the performance of the company, business or undertaking in which a participant worked or works or for which he or she was or is directly or indirectly responsible is found to have been misstated or based upon any material misrepresentation and which resulted in the award being granted and/or vesting over a greater number of shares than would otherwise have been the case;
- where any team, business area, member of the Group or profit centre in which the participant works or worked has been found guilty in

- connection with any regulatory investigation or has been in breach of any laws, rules or codes of conduct applicable to it or the standards reasonably expected of it; or
- a catastrophic safety or environmental event or events occurring in any part of the Rio Tinto Group.

Under the suspension provisions, the Committee may suspend the vesting of an award (for up to five years) until the outcome of any internal or external investigation is concluded and may then reduce or lapse the participant's award based on the outcome of that investigation. Note that where suspension applies, the 24-month claw-back period will not extend beyond the period commencing from the original vesting date.

### Recruitment remuneration

For both internal and external recruitment, we aim to position base salary at an appropriate level, taking into consideration a range of factors including the executive's current remuneration and experience, internal relativities, an assessment against the relevant comparator groups and cost.

Other elements of remuneration will be established in line with this Remuneration Policy.

In the case of internal appointments, existing commitments will be honoured.

If the Committee concludes that it is necessary and appropriate to secure an appointment, relocation-related support and international mobility benefits may be provided depending on the circumstances. Any relocation arrangements will be set out in the Implementation Report.

Any compensation provided to an executive recruited from outside the Group for the forfeiture of awards under variable remuneration arrangements entered into with a previous employer is considered separately to the establishment of forward-looking annual remuneration arrangements. Our policy with respect to such "buy-outs" is to determine a reasonable level of award, on a like-for-like basis, consisting primarily of equity-based awards, but also potentially cash or restricted stock, taking into consideration the quantum of forfeited awards, their performance conditions and vesting schedules. The Committee will obtain an independent external assessment of the value of awards proposed to be bought out and retains discretion, subject to the considerations noted above, to make such compensation as it deems necessary and appropriate to secure the relevant executive's employment. The Committee's intention is that buy-out compensation should include, where appropriate, performance conditions and an equivalent deferral period.

No form of "golden hello" will be provided upon recruitment.

### Executives' service contracts and termination

Under normal circumstances, executive directors will be offered service contracts which can be terminated by either party with up to 12 months' notice in writing, or immediately by paying the base salary only in lieu of any unexpired notice. In exceptional circumstances, an initial notice period of up to 24 months during the first two years of employment, reducing to up to 12 months thereafter, may be necessary to secure an external appointment. In some circumstances, it may also be appropriate to use fixed-term contracts for executive directors. For new appointments, if the company terminates by making a payment in lieu of notice, the Committee will for executive directors (to the extent permitted by relevant law) have regard to the executive director's ability to mitigate his or her loss in assessing the payment to be made.

The letters of appointment are available for inspection at Rio Tinto plc's registered office, and at its AGM.

Other executives are offered service contracts which can be terminated by the company with up to 12-months' notice in writing, and by the employee

with six-months' notice in writing, or immediately by the company by paying the base salary only in lieu of any unexpired notice. For the chief executive and for executives appointed from 1 January 2018, notice may be paid progressively in instalments over the notice period.

The current contract terms of both directors and the other executives are included in the Implementation Report.

Executives may be required to undertake "garden leave" during all or part of their notice period and may receive their base salary, STIP and other benefits during the notice period (or the cash equivalent). Where applicable, tax equalisation and other expatriate benefits will continue in accordance with the executive's prevailing terms and conditions.

In the case of dismissal for cause, the company can terminate employment without notice and without payment of any salary or compensation in lieu of notice. Outstanding awards under any of the Group's long-term incentive plans may be forfeited in these circumstances.

Accrued but untaken annual leave and any long service leave will be paid out on termination, in accordance with the relevant country legislation and applicable practice applying to all employees. For eligible leavers (as defined below) in Australia, the value of the leave is calculated on the basis of base salary, target STIP and car allowance. No STIP is included where the executive is not an eligible leaver.

If termination is a result of redundancy, the terms of the relevant local policy will apply in the same way as for other local employees.

On termination, the company will pay relocation or expatriation benefits as agreed at the time of the original expatriation and/or in accordance with applicable policies on travel and relocation.

On termination other than for cause, the company may make a payment in consideration for entry by the departing executive director into appropriate restrictive covenants to protect Rio Tinto and its shareholders. The amount of such payment will be determined by the Committee based on the content and duration of the covenant.

Following termination, executive directors may be eligible to receive long-term incentive awards under the conditions described in the sections following. They and their dependents may also be eligible for post-retirement benefits such as medical and life insurance. The company may also agree to continue certain other benefits for a period following termination where the arrangements are provided under term contracts or in accordance with the terms of the service contract, for example, payment for financial advice, tax advice and preparation of tax returns for a tax year. In some cases, they may receive a modest retirement gift.

Subject to the approval of the Committee the company may pay such amount as it determines is reasonable to settle any claims that an executive director may have in connection with the termination of his or her employment. The company may also pay reasonable legal and other professional fees (including outplacement support) to or in respect of a director in connection with the termination of his or her employment. These may include legal fees incurred in negotiating a settlement agreement with Rio Tinto. In assessing what is reasonable, the company will take account of prevailing rates for such advice and support and determine an appropriate level of contribution based on the complexity of the issues.

### **Treatment of STIP and LTIP on termination**

The STIP and LTIP rules govern the entitlements that executive participants may have under those plans upon termination of employment.

The concept of an "eligible leaver" is defined in the relevant plan rules. In general terms, an eligible leaver is an executive who leaves the Group by reason of ill-health, injury, disability (as determined by the executive's employer); retirement; redundancy; transfer of the undertaking in which the executive works; change of control of the executive's employing company; or death. Usually there is discretion for the Committee to treat an executive as an eligible leaver.

### **STIP**

If an eligible leaver leaves the Group during a performance year, the Committee may determine in its absolute discretion to award a pro rata portion of the STIP based on the amount of the year served and based on actual assessment of performance against targets. Any cash payment will be made at the normal STIP payment date and no portion of the award will be deferred into shares.

If an executive provides the company notice of their resignation during the performance year, but does not leave the Group until after the end of the performance year, the Committee may determine in its absolute discretion to make an award under the STIP. In these circumstances, the executive will only be eligible to receive the cash portion of the award and will forfeit the deferred shares portion. Any cash payment will be made at the normal STIP payment date.

No STIP award will be made where an executive who is not an eligible leaver leaves the Group, resigns or is terminated for cause prior to the end of the performance year.

### **Bonus deferred shares under the EIP and grants under the BDP (2013-2017)**

For grants made to executives, awards will normally vest on the scheduled vesting date. There will be no pro rata reduction of awards and any dividend equivalent shares will be calculated on the vested shares.

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

### **Performance Share Awards under the EIP and Performance Share Plan (2013-2017)**

For grants made to executives from and including 2013, awards will normally be retained, and vest at the scheduled vesting date. Unvested awards remain subject to the satisfaction of the performance conditions. Any dividend equivalent shares will be calculated on the vested shares at vesting.

If the executive leaves the Group during the first 36 months from the date of grant of the award, the number of shares that can vest will be reduced pro rata over that 36-month period.

Awards will vest immediately on death, but if an executive dies during the first 36 months from the date of grant of the award, the number of shares that vest will be reduced pro rata over that 36-month period.

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

Where permitted by the plan rules, and where the Remuneration Committee so decides, awards may be made or satisfied in cash in lieu of shares.

### **Management Share Awards under the EIP and grants under the Management Share Plan (MSP) (prior to 2018)**

Awards are only made to executives prior to their appointment as an Executive Committee member, except under the circumstances described in the "Recruitment remuneration" section above. All retained awards will be reduced pro rata to reflect the proportion of the period between the date of grant of the award and the normal vesting date which has not elapsed at the time employment ceased. Any dividend equivalent shares will be calculated on the vested shares. Awards vest on death, subject to the pro rata reduction described above, unless the Committee decides otherwise.

For grants made to executives, awards will normally be retained, and vest, at the Committee's discretion, at the scheduled vesting date (although awards for US taxpayers may vest on leaving).

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

### **All employee share plans**

For grants made to executives, awards will normally vest on or shortly after leaving. There will be no pro rata reduction of awards and any dividend equivalent shares will be calculated on the vested shares.

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

### **Chairman and non-executive directors' remuneration**

#### **Chairman**

It is Rio Tinto's policy that the chairman should be remunerated on a competitive basis and at a level which reflects his or her contribution to the Group, as assessed by the board.

The Committee (excluding the chairman, if he or she is a member) determines the terms of service and remuneration of the chairman. The chairman's fees are set by the Committee.

The chairman receives a fixed annual fee and does not receive any additional fee or allowance either for committee membership or chairmanship, or for travel. The chairman does not participate in the Group's incentive plans.

The chairman may be provided with a car and driver. Any use for transport between home and the office and other personal travel is a taxable benefit to the chairman, and the Company pays any tax arising on the chairman's behalf. The chairman pays a fixed annual fee to the Company for the personal travel element.

Relocation and localisation benefits in accordance with the policy for executive directors (for example, housing, tax equalisation, cost of living allowance, the payment of school fees, periodic visits home for the executive and their family and where relevant, localisation payments) may be made to and on behalf of a chairman working outside their home country. Any instances of these types of payments will be set out in the Implementation Report.

Other benefits include private healthcare cover, accident insurance (note this is neither contractual nor a taxable benefit), other minor benefits (including modest retirement gifts in applicable circumstances), occasional spouse travel in support of the business and any Rio Tinto business-related expenses which are deemed to be taxable where the company has paid the tax on his or her behalf.

Rio Tinto does not pay retirement or post-employment benefits to the chairman.

### **Non-executive directors**

Fees paid to non-executive directors reflect their respective duties and responsibilities and the time required to be spent by them so as to make a meaningful and effective contribution to the affairs of Rio Tinto.

The non-executive directors' fees and other terms are set by the board upon the recommendation of the Chairman's Committee (which comprises the chairman, chief executive and chief financial officer).

Non-executive directors receive a fixed annual fee comprising a base fee, committee membership or committee chairmanship fee or senior independent director fee, as applicable, and allowances for attending meetings which involve medium or long-distance air travel. They do not participate in any of the Group's incentive plans.

Where the payment of statutory minimum superannuation contributions for Australian non-executive directors is required by Australian superannuation law, these contributions are deducted from the director's overall fee entitlements.

Non-executive directors may on occasion receive reimbursement for costs incurred in relation to the provision of professional advice. These payments, if made, are taxable benefits to the non-executive directors and the tax arising is paid by the company on the director's behalf.

Other benefits provided include accident insurance (note this is neither contractual nor a taxable benefit), other minor benefits (including modest retirement gifts in applicable circumstances), occasional spouse travel in support of the business and any Rio Tinto business expenses which are deemed to be taxable where the company has paid the tax on their behalf. Rio Tinto does not pay retirement or post-employment benefits to non-executive directors.

### **Appointment**

The appointment of non-executive directors (including the chairman) is handled through the Nominations Committee and board processes. The current fee levels are set out in the Implementation Report.

The chairman's letter of appointment from the company stipulates his or her duties as chairman of the Group and appointment may be terminated without liability on the part of Rio Tinto in accordance with the Group's constitutional documents dealing with retirement, disqualification from office or other vacation from office. Otherwise, his or her appointment may be terminated by giving 12 months' notice. Accrued fees will be paid up to the termination date with the exception of dismissal for cause. The Committee has the discretion to make a payment in lieu of notice if the chairman is not required to serve his or her full 12-months' notice. If the appointment as chairman is terminated by reason of their removal as a director pursuant to a resolution of shareholders in general meeting, the company shall be liable to pay any fees accrued to the date of any such removal.

The non-executive directors' letters of appointment from the company stipulate their duties and responsibilities as directors. Each non-executive director is appointed subject to their election and annual re-election by shareholders. Non-executive directors' appointments may be terminated by giving three-months' notice. There are no provisions for compensation payable on termination of their appointment. The letters of appointment are available for inspection at Rio Tinto plc's registered office, and at its AGM.

In accordance with the provisions of the Group's constitutional documents, the maximum aggregate fees payable to the non-executive directors (including the chairman) in respect of any year, including fees received by the non-executive directors for serving on any committee of the boards, and any travel allowances received by the non-executive directors for attending meetings, will not exceed £3,000,000. Non-monetary benefits are not included in this limit.

# Remuneration Report: Remuneration Policy

## Remuneration Policy introduction

This Remuneration Policy applies to our executive and non-executive directors and to the chairman. In accordance with Australian law, it also sets out the broad policy principles that apply to members of the Executive Committee who are not directors.

Shareholders should note that this Remuneration Policy is binding only in so far as it relates to directors.

## Our remuneration policies, principles and practices

Our first priority is to spend remuneration resource wisely. We want our pay policies to be regarded as fair by shareholders and employees alike. Although we believe that our Remuneration Policy is fit for purpose, the Committee retains the discretion to override unforeseen and inappropriate mechanistic outcomes.

High-quality people, who are capable of managing and growing the business, are essential to generate superior returns for our shareholders. Rio Tinto operates in global and local markets where it competes for a limited pool of talented executives and our compensation strategy is therefore designed to attract and retain the people that we need. We recognise that remuneration represents just one of the factors that encourage the attraction and retention of talent. We also seek to engage our employees over the long term, to foster diversity, and to provide challenging work and development opportunities. Our people strategy is underpinned by our commitment to safety and our other core values of respect, integrity, excellence and teamwork.

## Competitive remuneration linked to performance and shareholder value creation

Remuneration is linked to performance targets over both the short and long term, to ensure that executive rewards are aligned to the delivery both of short-term priorities and long-term sustainable growth in shareholder value. In order to assess the competitiveness of the packages we offer, we benchmark ourselves against other companies in the FTSE30 (excluding financial services companies), which typically have similar global reach and complexity, and other international mining and natural resources companies. The outcomes of these benchmarking exercises form just part of our consideration of the appropriate level of remuneration packages, but we would not expect either base salaries or the expected outcome of our short- and long-term incentive plans to deviate markedly from the median of these comparator groups. The actual outcome will, of course, depend on business and individual performance.

We take salary increases in the broader employee population into account in determining any change to the base pay of executives and regularly consult with shareholders on the design of our short- and long-term incentive plans to ensure that they are aligned with shareholder interests and priorities. We do not formally consult with our employees on the Remuneration Policy, but approximately 40 per cent of the workforce are shareholders, through participation in our employee share plans and therefore have the right to vote on the Remuneration Report. Employees are also free to ask questions or express opinions through our normal employee communications channels.

Performance under the Short-Term Incentive Plan (STIP) is measured over one year based on a balanced scorecard including safety, financial and individual targets. We recognise the importance of ensuring these targets are achieved in the right way, and aligned to the Company's values. Therefore in considering STIP outcomes, we also consider the extent to which outcomes are in accordance with our values. Fifty per cent of the STIP for executives is delivered in deferred shares that vest after three years.

Performance for performance share awards (PSA) under the Long-Term Incentive Plan (LTIP) is measured over five years and awards are typically delivered in shares. From 2018, performance will be measured by reference to the total shareholder return (TSR) of Rio Tinto relative to the EMIX Global Mining Index (formerly the Euromoney Global Mining Index) (50 per cent) and the MSCI World Index (50 per cent), reflecting the fact that the company competes for capital with both mining companies and other global companies. IHS Markit purchased from Euromoney Indices all of its benchmark index intellectual property assets and subsequently rebranded those indices as the EMIX Indices. The relative EBIT margin improvement measure has been removed following consultation with major shareholders and feedback from employees, in order to achieve greater simplicity, transparency and alignment.

A new Equity Incentive Plan (EIP) was approved by shareholders at the AGMs in 2018. This allows both PSA and the deferred element of the STIP as described herein to be granted under a single plan with sufficient flexibility to reflect any future changes in the Group's Remuneration Policy. Participants below the Executive Committee level will also participate in LTIP awards under the EIP. Deferred dividends are accumulated under the EIP.

Options are no longer granted, but existing vested options may be exercised up to ten years after their grant. Our share ownership policy requires executives to build up and maintain a material shareholding in the company as described in the Implementation Report.

### Executive remuneration structure – policy table

The total remuneration package is designed to provide an appropriate balance between fixed and variable components, with an emphasis on long-term variable pay. The remuneration structure for executives, including the relationship between each element of remuneration and Group performance, is summarised below. Complementary remuneration structures are designed for other employees, drawing on these strategies and policies.

Further details on the key performance indicators (KPIs) used to assess Group performance are provided in the Strategic report.

Any commitment made before this Remuneration Policy takes effect or before an executive became or becomes a director will be honoured even if it is not consistent with this or any subsequent Remuneration Policy.

### Remuneration arrangements – Fixed

### Link to Group performance and strategy

#### Base salary

- Base salary provides the main fixed element of the remuneration package.
- Base salaries are reviewed annually, with a maximum individual increase of nine per cent, or inflation if higher, per annum. An individual increase may be higher than this for executives who are not directors in the circumstances described below.
- Any increase is generally aligned with the average base salary increases applying to the broader employee population unless there were significant changes to an individual's role and/or responsibilities during the year. Any increases are determined with reference to underlying Group and individual performance, global economic conditions, role responsibilities, an assessment against relevant comparator groups and internal relativities.
- An increase above the maximum noted above for executives who are not directors may be made in the event of internal promotion or increase in responsibility or where the executive's base salary is significantly below market positioning.
- Benchmarking is undertaken periodically but not annually, and our intention is to apply judgment in evaluating market data.

- We pay competitive salaries to hire, motivate and retain highly competent people.

#### Pension or superannuation

- Employment benefits typically include participation in a pension plan, superannuation fund, or a cash allowance to contribute to a personal pension or superannuation fund, which are aligned with the arrangements for the broader workforce of the country of residence.
- For appointments made from 1 June 2018, the maximum level of company contribution to an individual executive director's scheme annually is 25 per cent of base salary. For appointments prior to 1 June 2018 the maximum was 35 per cent.

- We provide locally competitive post-employment benefits in a cost-efficient manner in order to hire and retain.

#### Other benefits

- Other benefits may include, but are not limited to, private healthcare cover for the executive and their dependents, company car or allowance, car parking, life insurance, accident insurance, provision of company-provided transport/chauffeur, professional advice, participation in local flexible benefit programmes and certain other minor benefits (including modest retirement gifts in applicable circumstances, occasional spouse travel in support of the business and any Rio Tinto business expenses which are deemed to be taxable and where the company has paid the tax on their behalf).
- Secondment, relocation and localisation benefits (for example, housing, tax equalisation, cost of living allowance, the payment of school fees, periodic visits home for the executive and their family and where relevant, localisation payments) may also be made to and on behalf of executives living outside their home country. Examples of these types of payments are set out in the Implementation Report.
- Other benefits are paid at cost and, given the nature and variety of the items, there is no formal maximum level of company contribution.

- We provide competitive other benefits in a cost-efficient manner in order to hire and retain.

## Remuneration arrangements – Performance-related (At risk)

## Link to Group performance and strategy

### Short-Term Incentive Plan (STIP)

- 25 per cent of maximum is awarded for threshold performance; 50 per cent for target; and 100 per cent for outstanding. Between threshold and target, and between target and outstanding, the award is pro-rated on a straight-line basis. In the case of executive directors, the percentage award is multiplied by 1.2. The maximum award is capped at 200 per cent of base salary for all executives. Any outcome from the formulaic STIP calculation is subject to the exercise of discretion by the Committee.
- A scorecard based on the Group's five priorities is established for each executive at the commencement of the financial year. The measures and the relative weightings are selected by the Committee in order to drive business performance for the current year, including the achievement of financial, safety and other individual business outcomes that are priorities for the financial year in question. At least 50 per cent of the measures will relate to financial performance and a significant component will relate to safety performance.
- The measures, weightings and targets are reviewed annually and are included either prospectively or retrospectively each year in the Implementation Report. The Committee retains flexibility to determine the measures, weightings and targets as appropriate, based on the outcomes of its annual review.
- We expect to disclose the measures, weightings and targets for safety goals at the beginning of each year. In the area of financial and individual goals, we will, at the beginning of each year, disclose the measures and weightings only, because we regard the targets as commercially sensitive. However, we intend to disclose these targets and outcomes retrospectively. In the rare instances where this may not be prudent on grounds of commercial sensitivity, we will seek to explain why, and give an indication of when they will be disclosed.
- Threshold, target and outstanding performance levels are established for all STIP measures to help drive high levels of business and individual performance.
- The central or "base" plan delivers what the board considers to be target performance. Target performance is intended to be stretching. Probability factors are then applied, based upon a range of potential operating and cost scenarios, to establish the threshold and outstanding performance levels. These threshold (below target), target, and outstanding (above target) levels are determined by the Committee at the beginning of each performance year.
- In making its year-end determination of STIP awards, the Committee seeks to ensure that actual performance is directly comparable to the targets set at the beginning of the year. This may result in adjustments to the targets or to the assessed results being made by the Committee (in particular to take account of events outside management's control), to ensure a like-for-like comparison. Both upward and downward adjustments can be made, with reference to principles agreed by the Committee, to ensure the outcomes are fair.
- Safety KPIs comprise a significant portion of the STIP for executives, and any fatality will have a material impact on the STIP result for all executives.

- STIP focuses participants on achieving demanding annual performance goals, which are based on the Group's five priorities, in pursuit of the creation of sustainable shareholder value.
- We demand that sustainable business practices are adhered to, particularly in the context of safety.
- When reviewing the outcome of the awards under the STIP the Committee will, when evaluating overall safety, financial, Group and individual performance, consider the overall fairness against original expectations and shareholder experience.
- Any discretionary adjustments for directors will be disclosed in the Implementation Report for the financial period.
- We consider the individual performance of our executives against our values. The *way we work* outlines how we deliver both our purpose and strategy. It makes clear how all employees should behave, in accordance with our values of safety, team work, respect, integrity and excellence.

### Bonus Deferral

- Fifty per cent of the STIP is delivered in bonus deferred shares under the EIP with the remainder of the STIP delivered in cash with no deferral. Prior to 2018, bonus deferred share awards were made under the Bonus Deferral Plan (BDP).
- The bonus deferred shares vest in the December of the third year after the end of the STIP performance year to which it relates.
- The number of shares that vest is increased by reference to the dividends paid in the deferral period.
- Bonus deferred shares vest on a change of control.
- Given the mandatory nature of the deferral and the absence of performance conditions, bonus deferred shares are treated as "owned" from the award date for the purposes of calculating an executive's shareholding level.
- Malus, claw-back and suspension provisions that apply are set out later in the Remuneration Policy.

- Bonus Deferral ensures ongoing alignment between executives and shareholders through deferral of 50 per cent of STIP awards into Rio Tinto shares.

## Remuneration arrangements – Performance-related (At risk)

## Link to Group performance and strategy

### Performance Share Awards (PSA) under the Long-Term Incentive Plan (LTIP)

- PSA granted under the EIP will be conditional share awards that vest subject to the achievement of stretching performance conditions, comparing Rio Tinto's TSR relative to the EMIX Global Mining Index (50 per cent) and to the MSCI World Index (50 per cent).
- Full vesting is only achieved if Rio Tinto's relative TSR significantly outperforms the TSR of both indices. The outperformance required for full vesting is considered by the Committee to be very stretching. The TSR measure excludes stock repurchases on the basis that these would be reflected via our share price.
- The current level of outperformance required for full vesting is 6 per cent per annum over five years. However, for each award the Committee will determine the level of outperformance required against the indices on a per annum basis or on a compounded basis over the five-year period, in order for the whole of the award to vest.
- Each component of the award will be assessed independently. Details of the TSR targets and vesting schedules for the year under review and for the following year will be set out in the Implementation Report each year.
- Awards have a maximum face value of 438 per cent of base salary (ignoring dividend equivalents as described below).
- The awards have been calculated independently by our consultants (Willis Towers Watson) to have an expected value of approximately 50 per cent of face value. Expected value is face value adjusted for the probability of the performance target being met.
- Threshold performance, as explained in the Implementation Report, would result in the vesting of 22.5 per cent of the face value of an award.
- The maximum expected value of PSA is 219 per cent of base salary (ie 438 per cent x 50 per cent). The maximum threshold value is 98.6 per cent of base salary (ie 438 per cent x 22.5 per cent).
- Actual award levels may vary for each executive and are included in the Implementation Report.
- If vesting is achieved, participants are entitled to receive a number of additional shares whose market value reflects the aggregate cash amount of dividends that would have been received had the shares which have vested at the end of the performance period been held throughout the performance period.
- Where permitted by the plan rules, and where the Remuneration Committee so decides, awards may be made or satisfied in cash in lieu of shares.
- Awards and performance conditions may be adjusted to take account of variations of capital and other transactions. Subject to this Policy, performance conditions may also be amended in other circumstances if the Committee considers that a changed performance condition would be a fairer measure of performance.
- If there is a change of control, awards will vest to the extent performance conditions are then satisfied. Unless the Committee determines otherwise, if the change of control happens during the first 36 months from the date of grant of the award, the number of shares that can vest will be reduced pro rata to that 36-months period. The Committee may, alternatively, with agreement of an acquiring company, replace awards with equivalent new awards over shares in the acquiring company.
- The Committee retains the discretion, where circumstances warrant, to amend performance conditions under the relevant plan rules. The Committee will seek to ensure that outcomes are fair and that they take account of the overall performance of the company during the performance period.
- Malus, claw-back and suspension provisions that apply are set out later in the Remuneration Policy.

- PSA are designed to provide a simple and transparent mechanism for aligning executive reward with the execution of an effective business strategy that delivers superior long-term shareholder returns.
- Award levels are set to incentivise long-term performance and to contribute towards the competitiveness of the overall remuneration package.
- Relative TSR has been chosen as the most appropriate measure as it allows for an objective external assessment over a sustained period on a basis that is familiar to shareholders.
- How performance is generated is as important as what level of performance is delivered. Before vesting, the Committee will satisfy itself that relative TSR is an appropriate measure of the underlying performance of the business, and may adjust vesting accordingly.

### Notes to the policy table

The major change to the Remuneration Policy in 2018 is the removal of the relative EBIT margin improvement measure from the PSA. For PSA granted from 2013 until 2017 (under the 2013 Performance Share Plan), conditional share awards vest subject to the achievement of stretching performance conditions, comparing Rio Tinto's performance against:

- One-third: TSR relative to the EMIX Global Mining Index;
- One-third: TSR relative to the MSCI World Index; and
- One-third: improvement in EBIT margin relative to the global mining comparators which will be listed in the Implementation Report each year.

Each component of the award will be assessed independently. With respect to the EBIT margin measure, in order to ensure that outcomes are fair and that business performance has been appropriately taken into account, the

Committee will consider, on a discretionary basis, any specific, significant, unusual, "below the line" items (eg impairments) reported by Rio Tinto or its peers during the performance period to ensure genuine comparability when determining any level of vesting indicated by third-party data (currently S&P Capital IQ). The application of any such discretion will be disclosed.

Long-term incentive awards made prior to 2018, which may vest should the relevant performance conditions be satisfied, are permitted under this Policy. Details of awards granted prior to 2018, which have yet to vest, including their respective performance conditions, are provided in the Implementation Report.

### Total remuneration opportunity

The following charts provide an indication of the minimum, target and maximum total remuneration opportunity, subject to shareholder approval of the Remuneration Policy for the executive directors, together with the proportion of the package delivered through fixed and variable remuneration. The STIP and PSA granted under the LTIP are both performance-related remuneration. UK legislation requires that these charts are given in relation to the first year in which the Remuneration Policy applies (ie 2018).

The following table provides the basis for the values included in the charts below:

Fixed (stated in £'000)	Base salary(a)	Pension	Benefits(b)	Total fixed
Jean-Sébastien Jacques	£1,110	£276	£58	£1,444
Chris Lynch	£856	£214	£97	£1,167

(a) Base salary is the latest known salary.

(b) The value of benefits is as per the 2017 benefits figure in the single total figure of remuneration tables, as set out in the Implementation Report.

#### Performance-related (At risk)

##### Target STIP and LTIP performance

- A STIP award of 60% of the maximum award (ie 120% of base salary)
- Expected value of 2018 PSA of 50% of face value, calculated as 215% of base salary

##### Maximum STIP and LTIP performance

- A maximum STIP award of 200% of base salary
- Full vesting of 2018 PSA, calculated as 430% of base salary

(a) PSA granted under the LTIP consist of share awards only, measured at 2018 face value. This does not constitute an estimate of the value of awards that may potentially vest with respect to year end 31 December 2022. No assumption has been made for changes in share price or payment of dividends.

(b) No PSA will be granted to the chief financial officer in 2018. However a face value of 430% of base salary, consistent with the award to be made to the chief executive, has been included in the above charts for illustrative purposes.

(c) Further details of the 2018 PSA are disclosed in the 2017 Implementation Report.

### Jean-Sébastien Jacques

Chief executive

#### Potential value of 2018 remuneration package

£'000

Minimum

100%

**Fixed** £1,444

Target

28% 26% 46%

**Fixed** **STIP** **PSA** £5,163

Maximum

17% 26% 57%

**Fixed** **STIP** **PSA** £8,437

### Chris Lynch

Chief financial officer

#### Potential value of 2018 remuneration package

£'000

Minimum

100%

**Fixed** £1,167

Target

29% 25% 46%

**Fixed** **STIP** **PSA** £4,035

Maximum

18% 26% 56%

**Fixed** **STIP** **PSA** £6,560

### Context for outstanding performance

Outstanding business and individual performance is required to achieve the maximum level of remuneration. This comprises:

- outstanding performance against all financial, health and safety, and individual STIP measures; and
- TSR outperformance against both the EMIX Global Mining and MSCI World indices, currently 6 per cent per annum over five years.

The Committee believes that if these levels of reward are achieved by our executives, shareholders will benefit over time from superior share price performance.

### Discretions

The Committee recognises the importance of ensuring that the outcomes of the Group's executive pay arrangements described in this Remuneration Policy properly reflect the Group's overall performance.

The Committee therefore reserves the right to review all remuneration outcomes arising from mechanistic application of performance conditions and to exercise discretion where such outcomes do not properly reflect the experience of shareholders or other stakeholders.

The Committee may at its discretion adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition or divestment, a catastrophic safety or environmental incident, a change in control or other unexpected event) which cause the Committee to determine that the measures are no longer appropriate or in the best interests of shareholders or other stakeholders, and that amendment is required so that the measures achieve their original purpose. Such discretion will be exercised judiciously and clearly disclosed and explained in the Implementation Report.

### Malus, claw-back and suspension

Subject to approval by shareholders at the 2018 AGMs, "malus", "claw-back" and "suspension" provisions will apply to LTIP awards, including awards granted in connection with deferred bonuses under the EIP.

Under both the "malus" and "claw-back" provisions, where the Committee determines that an exceptional circumstance has occurred, the Committee may, at its discretion, reduce the number of shares to be received on vesting of an award, or, for a period of two years after the vesting of an award, the Committee can claw-back value from a participant.

The circumstances under which the Committee exercises such discretion may include, inter alia:

- any fraud or misconduct by a participant or an exceptional event which has had, or may have, a material effect on the value or reputation of any member of the Group (excluding an exceptional event or events which have a material adverse effect on global macroeconomic conditions);
- an error in the Group's financial statements which requires a material downward restatement or is otherwise material or where information has emerged since the award date which would have affected the size of award granted or vested;
- where the Committee determines that the personal performance of a participant, of their product group or of the Group does not justify vesting or where the participant's conduct or performance has been in breach of their employment contract, any laws, rules or codes of conduct applicable to them or the standards reasonably expected of a person in their position;
- the performance of the company, business or undertaking in which a participant worked or works or for which he or she was or is directly or indirectly responsible is found to have been misstated or based upon any material misrepresentation and which resulted in the award being granted and/or vesting over a greater number of shares than would otherwise have been the case;
- where any team, business area, member of the Group or profit centre in which the participant works or worked has been found guilty in

- connection with any regulatory investigation or has been in breach of any laws, rules or codes of conduct applicable to it or the standards reasonably expected of it; or
- a catastrophic safety or environmental event or events occurring in any part of the Rio Tinto Group.

Under the suspension provisions, the Committee may suspend the vesting of an award (for up to five years) until the outcome of any internal or external investigation is concluded and may then reduce or lapse the participant's award based on the outcome of that investigation. Note that where suspension applies, the 24-month claw-back period will not extend beyond the period commencing from the original vesting date.

### Recruitment remuneration

For both internal and external recruitment, we aim to position base salary at an appropriate level, taking into consideration a range of factors including the executive's current remuneration and experience, internal relativities, an assessment against the relevant comparator groups and cost.

Other elements of remuneration will be established in line with this Remuneration Policy.

In the case of internal appointments, existing commitments will be honoured.

If the Committee concludes that it is necessary and appropriate to secure an appointment, relocation-related support and international mobility benefits may be provided depending on the circumstances. Any relocation arrangements will be set out in the Implementation Report.

Any compensation provided to an executive recruited from outside the Group for the forfeiture of awards under variable remuneration arrangements entered into with a previous employer is considered separately to the establishment of forward-looking annual remuneration arrangements. Our policy with respect to such "buy-outs" is to determine a reasonable level of award, on a like-for-like basis, consisting primarily of equity-based awards, but also potentially cash or restricted stock, taking into consideration the quantum of forfeited awards, their performance conditions and vesting schedules. The Committee will obtain an independent external assessment of the value of awards proposed to be bought out and retains discretion, subject to the considerations noted above, to make such compensation as it deems necessary and appropriate to secure the relevant executive's employment. The Committee's intention is that buy-out compensation should include, where appropriate, performance conditions and an equivalent deferral period.

No form of "golden hello" will be provided upon recruitment.

### Executives' service contracts and termination

Under normal circumstances, executive directors will be offered service contracts which can be terminated by either party with up to 12 months' notice in writing, or immediately by paying the base salary only in lieu of any unexpired notice. In exceptional circumstances, an initial notice period of up to 24 months during the first two years of employment, reducing to up to 12 months thereafter, may be necessary to secure an external appointment. In some circumstances, it may also be appropriate to use fixed-term contracts for executive directors. For new appointments, if the company terminates by making a payment in lieu of notice, the Committee will for executive directors (to the extent permitted by relevant law) have regard to the executive director's ability to mitigate his or her loss in assessing the payment to be made.

The letters of appointment are available for inspection at Rio Tinto plc's registered office, and at its AGM.

Other executives are offered service contracts which can be terminated by the company with up to 12-months' notice in writing, and by the employee

with six-months' notice in writing, or immediately by the company by paying the base salary only in lieu of any unexpired notice. For the chief executive and for executives appointed from 1 January 2018, notice may be paid progressively in instalments over the notice period.

The current contract terms of both directors and the other executives are included in the Implementation Report.

Executives may be required to undertake "garden leave" during all or part of their notice period and may receive their base salary, STIP and other benefits during the notice period (or the cash equivalent). Where applicable, tax equalisation and other expatriate benefits will continue in accordance with the executive's prevailing terms and conditions.

In the case of dismissal for cause, the company can terminate employment without notice and without payment of any salary or compensation in lieu of notice. Outstanding awards under any of the Group's long-term incentive plans may be forfeited in these circumstances.

Accrued but untaken annual leave and any long service leave will be paid out on termination, in accordance with the relevant country legislation and applicable practice applying to all employees. For eligible leavers (as defined below) in Australia, the value of the leave is calculated on the basis of base salary, target STIP and car allowance. No STIP is included where the executive is not an eligible leaver.

If termination is a result of redundancy, the terms of the relevant local policy will apply in the same way as for other local employees.

On termination, the company will pay relocation or expatriation benefits as agreed at the time of the original expatriation and/or in accordance with applicable policies on travel and relocation.

On termination other than for cause, the company may make a payment in consideration for entry by the departing executive director into appropriate restrictive covenants to protect Rio Tinto and its shareholders. The amount of such payment will be determined by the Committee based on the content and duration of the covenant.

Following termination, executive directors may be eligible to receive long-term incentive awards under the conditions described in the sections following. They and their dependents may also be eligible for post-retirement benefits such as medical and life insurance. The company may also agree to continue certain other benefits for a period following termination where the arrangements are provided under term contracts or in accordance with the terms of the service contract, for example, payment for financial advice, tax advice and preparation of tax returns for a tax year. In some cases, they may receive a modest retirement gift.

Subject to the approval of the Committee the company may pay such amount as it determines is reasonable to settle any claims that an executive director may have in connection with the termination of his or her employment. The company may also pay reasonable legal and other professional fees (including outplacement support) to or in respect of a director in connection with the termination of his or her employment. These may include legal fees incurred in negotiating a settlement agreement with Rio Tinto. In assessing what is reasonable, the company will take account of prevailing rates for such advice and support and determine an appropriate level of contribution based on the complexity of the issues.

### **Treatment of STIP and LTIP on termination**

The STIP and LTIP rules govern the entitlements that executive participants may have under those plans upon termination of employment.

The concept of an "eligible leaver" is defined in the relevant plan rules. In general terms, an eligible leaver is an executive who leaves the Group by reason of ill-health, injury, disability (as determined by the executive's employer); retirement; redundancy; transfer of the undertaking in which the executive works; change of control of the executive's employing company; or death. Usually there is discretion for the Committee to treat an executive as an eligible leaver.

### **STIP**

If an eligible leaver leaves the Group during a performance year, the Committee may determine in its absolute discretion to award a pro rata portion of the STIP based on the amount of the year served and based on actual assessment of performance against targets. Any cash payment will be made at the normal STIP payment date and no portion of the award will be deferred into shares.

If an executive provides the company notice of their resignation during the performance year, but does not leave the Group until after the end of the performance year, the Committee may determine in its absolute discretion to make an award under the STIP. In these circumstances, the executive will only be eligible to receive the cash portion of the award and will forfeit the deferred shares portion. Any cash payment will be made at the normal STIP payment date.

No STIP award will be made where an executive who is not an eligible leaver leaves the Group, resigns or is terminated for cause prior to the end of the performance year.

### **Bonus deferred shares under the EIP and grants under the BDP (2013-2017)**

For grants made to executives, awards will normally vest on the scheduled vesting date. There will be no pro rata reduction of awards and any dividend equivalent shares will be calculated on the vested shares.

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

### **Performance Share Awards under the EIP and Performance Share Plan (2013-2017)**

For grants made to executives from and including 2013, awards will normally be retained, and vest at the scheduled vesting date. Unvested awards remain subject to the satisfaction of the performance conditions. Any dividend equivalent shares will be calculated on the vested shares at vesting.

If the executive leaves the Group during the first 36 months from the date of grant of the award, the number of shares that can vest will be reduced pro rata over that 36-month period.

Awards will vest immediately on death, but if an executive dies during the first 36 months from the date of grant of the award, the number of shares that vest will be reduced pro rata over that 36-month period.

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

Where permitted by the plan rules, and where the Remuneration Committee so decides, awards may be made or satisfied in cash in lieu of shares.

### **Management Share Awards under the EIP and grants under the Management Share Plan (MSP) (prior to 2018)**

Awards are only made to executives prior to their appointment as an Executive Committee member, except under the circumstances described in the "Recruitment remuneration" section above. All retained awards will be reduced pro rata to reflect the proportion of the period between the date of grant of the award and the normal vesting date which has not elapsed at the time employment ceased. Any dividend equivalent shares will be calculated on the vested shares. Awards vest on death, subject to the pro rata reduction described above, unless the Committee decides otherwise.

For grants made to executives, awards will normally be retained, and vest, at the Committee's discretion, at the scheduled vesting date (although awards for US taxpayers may vest on leaving).

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

### **All employee share plans**

For grants made to executives, awards will normally vest on or shortly after leaving. There will be no pro rata reduction of awards and any dividend equivalent shares will be calculated on the vested shares.

If the executive resigns or is dismissed for misconduct, or for any other reason that the Committee decides, the awards will lapse.

### **Chairman and non-executive directors' remuneration**

#### **Chairman**

It is Rio Tinto's policy that the chairman should be remunerated on a competitive basis and at a level which reflects his or her contribution to the Group, as assessed by the board.

The Committee (excluding the chairman, if he or she is a member) determines the terms of service and remuneration of the chairman. The chairman's fees are set by the Committee.

The chairman receives a fixed annual fee and does not receive any additional fee or allowance either for committee membership or chairmanship, or for travel. The chairman does not participate in the Group's incentive plans.

The chairman may be provided with a car and driver. Any use for transport between home and the office and other personal travel is a taxable benefit to the chairman, and the Company pays any tax arising on the chairman's behalf. The chairman pays a fixed annual fee to the Company for the personal travel element.

Relocation and localisation benefits in accordance with the policy for executive directors (for example, housing, tax equalisation, cost of living allowance, the payment of school fees, periodic visits home for the executive and their family and where relevant, localisation payments) may be made to and on behalf of a chairman working outside their home country. Any instances of these types of payments will be set out in the Implementation Report.

Other benefits include private healthcare cover, accident insurance (note this is neither contractual nor a taxable benefit), other minor benefits (including modest retirement gifts in applicable circumstances), occasional spouse travel in support of the business and any Rio Tinto business-related expenses which are deemed to be taxable where the company has paid the tax on his or her behalf.

Rio Tinto does not pay retirement or post-employment benefits to the chairman.

### **Non-executive directors**

Fees paid to non-executive directors reflect their respective duties and responsibilities and the time required to be spent by them so as to make a meaningful and effective contribution to the affairs of Rio Tinto.

The non-executive directors' fees and other terms are set by the board upon the recommendation of the Chairman's Committee (which comprises the chairman, chief executive and chief financial officer).

Non-executive directors receive a fixed annual fee comprising a base fee, committee membership or committee chairmanship fee or senior independent director fee, as applicable, and allowances for attending meetings which involve medium or long-distance air travel. They do not participate in any of the Group's incentive plans.

Where the payment of statutory minimum superannuation contributions for Australian non-executive directors is required by Australian superannuation law, these contributions are deducted from the director's overall fee entitlements.

Non-executive directors may on occasion receive reimbursement for costs incurred in relation to the provision of professional advice. These payments, if made, are taxable benefits to the non-executive directors and the tax arising is paid by the company on the director's behalf.

Other benefits provided include accident insurance (note this is neither contractual nor a taxable benefit), other minor benefits (including modest retirement gifts in applicable circumstances), occasional spouse travel in support of the business and any Rio Tinto business expenses which are deemed to be taxable where the company has paid the tax on their behalf. Rio Tinto does not pay retirement or post-employment benefits to non-executive directors.

### **Appointment**

The appointment of non-executive directors (including the chairman) is handled through the Nominations Committee and board processes. The current fee levels are set out in the Implementation Report.

The chairman's letter of appointment from the company stipulates his or her duties as chairman of the Group and appointment may be terminated without liability on the part of Rio Tinto in accordance with the Group's constitutional documents dealing with retirement, disqualification from office or other vacation from office. Otherwise, his or her appointment may be terminated by giving 12 months' notice. Accrued fees will be paid up to the termination date with the exception of dismissal for cause. The Committee has the discretion to make a payment in lieu of notice if the chairman is not required to serve his or her full 12-months' notice. If the appointment as chairman is terminated by reason of their removal as a director pursuant to a resolution of shareholders in general meeting, the company shall be liable to pay any fees accrued to the date of any such removal.

The non-executive directors' letters of appointment from the company stipulate their duties and responsibilities as directors. Each non-executive director is appointed subject to their election and annual re-election by shareholders. Non-executive directors' appointments may be terminated by giving three-months' notice. There are no provisions for compensation payable on termination of their appointment. The letters of appointment are available for inspection at Rio Tinto plc's registered office, and at its AGM.

In accordance with the provisions of the Group's constitutional documents, the maximum aggregate fees payable to the non-executive directors (including the chairman) in respect of any year, including fees received by the non-executive directors for serving on any committee of the boards, and any travel allowances received by the non-executive directors for attending meetings, will not exceed £3,000,000. Non-monetary benefits are not included in this limit.