Rio Tinto

Rio Tinto Limited AGM – Address by John Varley

Brisbane, 5 May 2016
John Varley, non-executive director and chairman of the Remuneration Committee

Check against delivery

Thank you Jan, and good morning ladies and gentlemen.

I would like to spend a few minutes providing you with some context on the resolutions relating to remuneration for which we are seeking your approval today.

These resolutions are numbered 2 and 3 in your notice of meeting.

As a dual listed company, we must comply with both UK and Australian legislation as it relates to remuneration.

The rules for each jurisdiction are different.

We have organised the voting arrangements in the same way as last year so that all shareholders vote on both resolutions.

Firstly, let me describe the structure of the Remuneration Report.

The Report is divided into two sections.

The first section the Remuneration Policy summarises our compensation policies and practices.

This Policy was subject to a binding vote for UK law purposes in 2015 and became effective in respect of payments to directors from the 7th of May last year.

Certain changes have been made to the policy since then.

But because these are minor, they do not require shareholder approval this year.

A version of the Remuneration Policy which highlights these changes can be found on our website.

The second section is the Annual Report on remuneration which we call the Implementation Report.

This shows how the Remuneration Policy has been applied in 2015 and how we intend it to operate in 2016.

The Implementation Report is subject to an advisory vote for UK Law purposes.

This is Resolution number 2.

The Remuneration Report as a whole is subject to an advisory vote for Australian law purposes.

This is Resolution number 3.

Both Resolutions are to be voted on at the AGMs as Joint Decision Matters by the shareholders of Rio Tinto plc and Rio Tinto Limited voting collectively.

The Remuneration Report on which you will be voting today is designed to demonstrate the link between the Company's strategy its performance and the remuneration outcomes for our senior management team particularly the executive directors.

We take a long-term view of our activities with the objective of delivering positive shareholder returns through the cycle.

The performance objectives for our executives are set accordingly.

We want the remuneration outcomes properly to reflect the Group's overall performance and you will see several mechanisms in the Remuneration Report that are intended to create alignment of interest between shareholders and executives.

Now, certain discretions are reserved to the Remuneration Committee.

Let me give you some examples of how these discretions were exercised in the last 12 months.

Among the remuneration outcomes described in the Implementation Report you will note that there has been a pay freeze for executives in 2016.

Awards under the Short Term Incentive Plan (or STIP) for most of the executive team were lower in 2015 than in 2014.

Looking at our 2015 safety targets the Group achieved record lows in both Lost Time Injuries and in the All Injury Frequency rate.

However using its discretion the Remuneration Committee applied reductions to the safety performance component of the STIP where a fatality occurred.

In the case of the CEO the Remuneration Committee decided that the element of compensation attributable to safety should be halved due to the occurrence of fatalities.

When considering financial performance against the annual plan we measure half against the original plan with the other half flexed to exclude the impact of fluctuations in exchange rates and quoted metal and other prices which are outside management's control.

We have used this approach since 2005.

When commodity prices have risen or when there have been favourable exchange rate variations we have protected shareholders by ensuring that 50 per cent of the financial component of the STIP opportunity is denied the windfall benefit of that rise.

Likewise, when commodity prices fall or when there are negative exchange rate variations 50 per cent is safeguarded against that fall.

We consider that this approach maintains both appropriate protection for shareholders and incentive for executives even in times of significant earnings volatility.

In relation to the 2015 financial targets the Remuneration Committee determined that the Group's underlying 'unflexed' target for earnings had not been met.

However, the ‘unflexed’ target for cash flow and the ‘flexed’ targets for earnings and cash flow were all exceeded.

Cash flow performance was very strong with a significant contribution from cost reductions which substantially exceeded target.

I believe that despite the inescapable impact on earnings of the sharp downdraft in commodity prices shareholder interests were well protected by the energetic management of capital costs working capital debt and production.

Nevertheless, the 2015 STIP awards for Sam and Chris and for most of the other members of the Executive Committee were lower, and in some cases significantly lower, than last year indicating that the Remuneration Committee took careful account in making its decisions of the experience of shareholders during the year.

The Long Term Incentive Plan awards granted to executives in 2016 as a percentage of base salary were lower than in 2015.

The Committee intends to keep the Group’s long-term incentive arrangements under review including the level of vesting for threshold performance under the Performance Share Plan.

I know that shareholders want to see strong alignment between the value of their own shareholdings and the wealth of executives.

The reduction in the remuneration outcomes for executive directors as shown in the single total figure of remuneration compared to the prior year testifies to this alignment.

Furthermore the reduced value of shares vesting this year and of those held under the share ownership programme (including the value of bonuses paid in shares) also reflects the downward movement in the share price.

A quick reference to Sam’s retirement on 1 July and to JS’s appointment as chief executive from 2 July.

Sam’s leaving arrangements are governed by, and consistent with, the Remuneration Policy approved by shareholders.

Until his retirement date he will continue to be paid in accordance with his existing contract.

As chief executive, JS will be on a standard Rio Tinto executive contract which includes a 12-month notice period.

He will receive a remuneration package which is in line with our remuneration policy and which is benchmarked against members of the FTSE30 and against other international mining companies.

We are committed to spending your compensation resource fairly and responsibly to ensure that remuneration policy and practices are properly linked to performance and to the delivery of the Group’s strategy.

Of course we recognise that strong feelings exist about executive pay.

We also know that there will never be a perfect consensus among our owners on this subject.

For this reason the Remuneration Committee seeks to maintain its constructive dialogue with our shareholders and we will continue these conversations in the months ahead.

Back to you Jan.

Contacts

media.enquiries@riotinto.com

www.riotinto.com

Follow @RioTinto on Twitter

Media Relations, EMEA/Americas
Illtud Harri
T +44 20 7781 1152
M +44 7920 503 600

David Outhwaite
T +44 20 7781 1623
M +44 7787 597 493

David Luff
T + 44 20 7781 1177
M + 44 7780 226 422

Media Relations, Australia/Asia
Ben Mitchell
T +61 3 9283 3620
M +61 419 850 212

Bruce Tobin
T +61 3 9283 3612
M +61 419 103 454

Matthew Klar
T +61 7 3625 4244
M +61 457 525 578

Investor Relations, EMEA/Americas
John Smelt
T +44 20 7781 1654
M +44 7879 642 675

David Ovington
T +44 20 7781 2051
M +44 7920 010 978

Grant Donald
T +44 20 7781 1262
M +44 7920 587 805

Investor Relations, Australia/Asia
Natalie Worley
T +61 3 9283 3063
M +61 409 210 462

Rachel Storrs
T +61 3 9283 3628
M +61 417 401 018

Rio Tinto plc
6 St James's Square
London SW1Y 4AD
United Kingdom

T +44 20 7781 2000
Registered in England
No. 719885

Rio Tinto Limited
120 Collins Street
Melbourne 3000
Australia

T +61 3 9283 3333
Registered in Australia
ABN 96 004 458 404