

# Governance engagement

Address to ACSI members

18 December 2020

## Simon Thompson, Chairman, Rio Tinto

Good morning. Thanks for joining the call. And thanks to ACSI for hosting this event.

Yesterday evening, Australia time, we announced the appointment of Jakob Stausholm as CEO.

Jakob is already known to many of you, and so you will be aware that he has made a significant contribution to the performance and the strategy of the Group, since joining as CFO two years ago.

We're here today primarily to talk about the lessons learned from Juukan.

But the appointment of Jakob represents an important milestone as we continue the process of rebuilding trust.

One of the reasons the Board chose Jakob is because he has strong values and will provide very clear leadership of our efforts to re-establish Rio Tinto's reputation as an industry-leader in environmental and social management.

Last month, Megan Clark and I visited the Juukan Gorge with Harold Ashburton, one of the elders of the PKKP, whose grandfather was born there. It was my first opportunity to apologise in person to the PKKP for the destruction of the caves. And to see and feel their sadness. And pain.

The loss of the Juukan rockshelters has impacted many others, in Australia and beyond. And within Rio Tinto it has left many of our employees, particularly our Indigenous Australian colleagues, feeling deeply shocked and ashamed.

As the Board Review and Parliamentary Inquiry have shown, the destruction of Juukan resulted from a failure of process over a long period of time.

But more importantly, it was a breach of trust. A failure to uphold the values that we believe in and aspire to as a company, in our relationship with the PKKP.

We cannot change the past. But we can change the future. And the Board is absolutely determined to learn the lessons. And to ensure that the destruction of a site of exceptional cultural significance, like Juukan, never happens again.

I am going to start with a summary of the progress that we have made in implementing the recommendations set out in the Board Review and the Interim Report of the Parliamentary Inquiry.

Megan Clark, chair of our Sustainability Committee, will talk about the improvements that we have made to governance and board oversight.

And Simon Henry, chair of the Audit Committee, will discuss how we will apply the lessons from Juukan to other aspects of risk management.

We will then move onto Q&A.

Sam Laidlaw, Senior Independent Director and chair of Remco, has already presented to ACSI on the exit terms for J-S Jacques, Chris Salisbury and Simone Niven. And our plans to incorporate ESG targets into our Short Term Incentive Plan next year.

The events leading up to the destruction of the caves are known to all of you. But I do just want to highlight that this kind of 'sleeping risk' is a Board's worst nightmare.

The decision to destroy the rock shelters was taken nearly 8 years ago. But because mining is such a long-cycle industry, that decision was not actually implemented until 2020.

And because management failed to recognise and flag the ongoing risk at the time the decision was taken, it did not appear on the mine's planning systems or risk register. And over time, knowledge and awareness of the significance of the site was lost.

As a result, our immediate response to the Juukan crisis was slow and confused. Our initial apology was totally inadequate. And we waited far too long before J-S Jacques, our CEO, issued his apology.

In June, the Board stepped in. With the benefit of hindsight, we should have done so earlier. We gave an unreserved apology. And we undertook to conduct a Board Review to establish exactly what had gone wrong, and to publish our findings.

During the two weeks following the publication of the Board Review in August, I spoke to about 70 shareholders.

As well as engaging with Traditional Owners, Indigenous Leaders, the Governments of Australia and Western Australia, and other stakeholders.

And at the end of that two-week period of intense engagement, the Board unanimously agreed that J-S Jacques, Chris Salisbury and Simone Niven should leave the company by mutual agreement.

Because it was clear that a number of influential shareholders and other important stakeholders (mainly, but not exclusively in Australia) had lost confidence in their ability to lead the necessary change.

I know that some of you think that we should have acted sooner. But there was a very wide range of opinion on the appropriate sanctions. And I think it was right to establish the facts and engage with as many shareholders as possible before removing three of our most senior executives, including the CEO.

Since August, we've moved decisively to implement all the recommendations set out in the Board Review and the recently published Interim Report of the Parliamentary Inquiry.

I am going to start by summarising the changes we've made to our processes and governance. And then I'll talk about culture and relationships.

The most urgent task was to ensure that we do not have other sites, of similar significance to Juukan, within our existing mine plans.

We are currently completing the first phase of our new Integrated Heritage Management Plan. A systematic review all the heritage sites that we manage, worldwide. Starting with those that may be impacted by our activities over the next 2 years.

So far, we have reviewed over 1,000 sites. We have ranked each one by:

- Cultural significance
- Our confidence that we have Free Prior Informed Consent
- And the materiality of the potential impact

Where there is any doubt, we have reclassified the sites from 'cleared for mining' back to 'protected' as a precautionary measure, pending further consultation with the Traditional Owners. This will ensure that Free Prior Informed Consent (or FPIC) is a continuing process, not a one-off event.

We have also changed the reporting lines of all Communities and Heritage professionals. Those based at our mine sites and within the Product Groups now report into line management, rather than to a function. And they are fully integrated into the mine planning process.

Our new Communities and Social Performance Centre of Expertise, reporting to Mark Davies, a member of ExCo based in Brisbane, provides expert advice and second line assurance.

We have written to all our Traditional Owners, setting out the principles that we propose to adopt in the modernisation of our Agreements.

In the meantime, any 'Gagging' orders or restrictions on seeking statutory protection for heritage will not be enforced.

We want to co-manage heritage with the Traditional Owners to ensure that FPIC is a continuing process. And introduce appropriate dispute resolution processes, where we disagree.

And we will continue to work with Traditional Owners to increase the economic benefits that flow to their communities from employment, skills, training and business development.

Subject to the consent of the Traditional Owners, we intend to make our new Agreements public.

And we will engage with the Traditional Owners on how best to incorporate a process of independent review, to support this modernisation process.

We have asked Wayne Bergmann (who I am sure many of you know) to consult with the Traditional Owners on the formation of an Indigenous Advisory Group, to assist with the modernisation of our Agreements.

The Advisory Group will:

- Advise the Board and senior management team
- And provide an alternative pathway for Traditional Owners to escalate any concerns they may have about Rio Tinto's performance at a local level

In many respects, fixing our processes and agreements is the easy part. Making sure that we have the right work culture and relationships will require sustained effort over many years.

As we analyse the events leading up to the destruction of the Juukan caves, we keep coming back to the same question: When the archaeological reports were received in 2014 and 2018, stating that Juukan

was a site of national significance, why did nobody raise their concerns with senior management? And if they did, why were they ignored?

There are no simple answers to these questions. But we think that there are four elements that will help to reinforce the values that Rio Tinto aspires to.

First: We need to increase awareness and understanding of Community and Heritage issues. We need to invest more in training and coaching our leaders to ensure that they understand their responsibilities and have access to the subject matter experts and information they need to support good decision-making.

Second: The General Managers of our mines need to invest more time in building relationships with Traditional Owners. They need to become much better at picking up weak signals from our host communities, before they escalate into major problems.

We've appointed Brad Welsh, formerly General Manager of Weipa, to be Chief Advisor on Indigenous Affairs, who will report to Jakob, to coach our leaders on their engagement with Traditional Owners. And we've reinvigorated our cultural awareness training. With all frontline staff, including the Board, undertaking both elearning and face to face training with Indigenous Australians.

The third element is building a more inclusive work culture.

Over the past few months the Board has held a series of virtual Town Halls and engagements with staff around the world to seek their views on what do we need to do to create a more inclusive, more diverse work culture, where people feel empowered to challenge decisions. This will be a big focus for Jakob, when he takes over in the New Year, and was an important consideration in our decision to appoint him as CEO.

We also need to ensure that Indigenous Australians have a stronger voice, not just in our host communities but also within Rio itself. So we've created a \$50m fund to accelerate the career development of Indigenous Australians, in order to build a more diverse leadership team.

And the final element is all about breaking down silos to ensure that Community and Heritage issues are fully integrated into business planning decisions. In exactly the same way as safety or production.

With all the changes taking place in the Executive team, the Board has deliberately taken a prominent role in leading these changes.

In April 2020, we appointed two new directors to the Board and Professor Ngaire Woods joined us in September. All three new directors bring relevant experience of championing inclusion, diversity, cultural change and governance.

We currently have a search underway for a fourth new NED, to replace David Constable. One of our selection criteria will be their ability to help lead this cultural change.

In parallel with these internal changes we have continued to engage with the Government of Western Australia in relation to reform of the Aboriginal Heritage Act.

Juukan is an extreme example, but heritage management is an industry-wide problem, like tailings, and it is vital that we adopt an industry-wide solution. So we are engaging with the Chamber of Minerals and Energy in Western Australia, the Minerals Council of Australia and the ICMM, sharing the lessons that we have learned from Juukan.

And finally, we are making good progress in agreeing a remedy process with the PKKP. At a joint board meeting of the PKKP and Rio Tinto in late November (which Megan and I attended in person) we discussed progress with agreeing a moratorium area and restoring the Gorge.

While Juukan 2 is irreparably damaged, Juukan 1 appears to be largely intact, and capable of restoration. And the snake pool further down the gorge is unharmed. We have already transferred the artefacts recovered from Juukan to a purpose-built facility. And we are discussing the construction of a permanent 'keeping place' on PKKP land to provide a lasting memorial.

So in summary, we have made significant progress in implementing all the recommendations set out in the Board Review and the Interim Report of the Parliamentary Committee.

With three key processes underway:

- Firstly, the Integrated Heritage Management Plan, to strengthen Free Informed Prior Consent and improve decision-making
- Secondly, modernisation of our Agreements with Traditional Owners to increase transparency and redress the imbalance of power.
- And thirdly, a sustained effort to create a more inclusive, diverse culture that will strengthen our partnerships with the Traditional Owners and empower both them and us to speak up, if something is not right.

And with the appointment of Jakob, we have a CEO who is as committed as we are to restoring Rio's reputation as an industry-leader in Community and Heritage management.

Let me now pass over to Megan, who will talk about the Board oversight of this process.

## **Megan Clark, Sustainability Committee Chair, Rio Tinto**

Good morning. I am Megan Clark, and I chair Rio Tinto's Sustainability Committee. It is a privilege to speak to you from the lands and waters of the Yuin-Monaro nation and pay my respects to Elders past present and emerging.

Our committee supports the board ensure Rio Tinto delivers a strong business performance and does so on a sustainable basis and in a way that builds trust with our people, builds trust with our partners and stakeholders and builds trust with society.

The committee's key areas of focus are:

- Health and safety, including tailings and water storage, process safety and underground and open pit safety
- Care for the environment at our operations, our regions and globally in areas such as water and climate change
- the security of our people and assets
- and the focus of today – Community engagement, human rights and partnerships with the traditional owners on whose land we operate

I am saddened and deeply shamed by the grief, pain and immeasurable loss caused by the devastation at Juukan Gorge.

Internal and external investigations have highlighted the deficiencies in how our partnerships were managed, the lack of integration of our heritage management with our mine teams and a culture that was focussed on business performance and not enough on building trust with our people, our partners and society.

As Simon has said we have a lot of work to rebuild that trust and it will take time and significant reform of our culture and how we operate.

Sustainability Committee has commenced overseeing that reform, including implementation of the recommendations of the Board review and the recommendations of the Parliamentary Inquiry.

Our work goes beyond these recommendations to ensure the lessons of Juukan are learnt in the Pilbara, in Australia and across the globe.

Simon has highlighted how we have:

- worked closely with the PKKP to re-establish a working relationship
- Completed the immediate containment of the Juukan Gorge ahead of the wet season
- extended a moratorium area around Juukan Gorge in consultation with the PKKP
- moved some of the artefacts previously salvaged from the rockshelters to a purpose-built facility with the support of the PKKP
- started the process to modernise our agreements with Traditional owners
- and commenced cultural competency program across Rio Tinto

I wanted to share with you what the changes mean on the ground at our Pilbara operations.

One of the key changes to ensure our heritage management is that our product groups now have primary responsibility for our Communities and Social Performance partnerships.

This means our GM Operations at each mine in the Pilbara is personally responsible for the relationships with the relevant traditional owners.

The traditional owners want to be speaking directly with the person who is controlling the mine plan, the drills and the dozers. The GM's also want this direct line of communication to ensure no errors.

We saw this in action at Brockman 4 where the Traditional Owners were supervising the dozer work to stabilise the Juukan Gorge ahead of the late November rains.

Our people share the hurt, outrage and shame. They are committed to building with the Traditional Owners a new best practice for heritage management for Rio Tinto and the industry.

One of these new best practises that Simon and I reviewed on the ground is the Integrated Heritage Management Process.

Each heritage site is assessed on the basis of cultural significance, level of interaction with, and consents from, the Traditional Owners and materiality of potential impact.

Over 1000 sites have been reviewed to date and all high and very high rated sites in the Pilbara have been allocated 350m buffer zones.

Records of all interactions with the Traditional Owners and knowledge of a site are recorded.

As at November there have been no approvals requested to disturb sites since the Juukan incident.

Any approvals to disturb sites directly or indirectly that are low to moderate risk are made at the Rio Tinto Iron Ore Chief Executive level with high or very high risk decisions made at the CEO level and if necessary escalated to the Board.

In the next phase of this process heritage considerations will be permanently integrated into mine planning and development studies in co-development and ownership with Traditional Owners.

I visited the Western Range team to see first-hand how this integrated approach is already working.

The engineers are working with the Traditional Owners to co-design the mine plan from the outset and then working iteratively with them as the cultural assessments and mine design progresses.

They are listening to the traditional owners to protect the look and feel of a significant site so that the next generation feel the spirituality as they approach a site.

Our teams want to celebrate and bring to life the living Aboriginal cultural values in a way that respects their integral role in our shared future.

A new Communities and Social Performance Area of Expertise is being formed that will own the relevant standards to ensure our best practices in this area are consistent globally; to provide the second line of assurance and to ensure we have the right people with the right skills in the right locations.

Internal Audit team will provide the third level of assurance - reporting directly to the Sustainability Committee.

The Sustainability Committee has commenced the oversight of this reform and at each of its six meetings in 2021 will receive updates on progress within our Iron Ore business and globally.

As Chair, I will verify this progress on the ground in the Pilbara during 2021.

Let me now hand over to Simon Henry.

## **Simon Henry, Audit Committee Chairman, Rio Tinto**

The Audit committee is responsible for oversight of the following activities:

- Financial reporting, specifically integrity, accuracy and completeness
- The Group's overall framework of risk management and internal controls, and monitoring their effectiveness
- Internal audit
- External auditors work on the statutory audit
- Ethics & Compliance

You will be familiar with our risk management framework, and with the three lines of defence model – our operations (first line), our areas of expertise (second line) and our internal audit programme (third line).

The Audit Committee monitors the effectiveness of the framework, which we believe is well designed overall.

We do not ordinarily consider the nature and mitigation of all Principal risks, ultimately this is a Board responsibility.

Overall effectiveness requires clear expectations and consistency of application of the framework, across different Businesses, Geographies and Areas of Expertise.

This clearly did not happen in the case of Juukan.

As Simon and Megan have just described, we have made changes to Heritage risk management within that framework to strengthen the first and second lines of defence, following the events at Juukan Gorge.

Rio is effective in reviewing risks arising on current projects.

What happened at Juukan is that the organisation thought it no longer necessary to track the risk as relevant approvals and consents had been obtained. The risk or the awareness around the cultural significance of the rock shelters was therefore lost.

This highlights the critical dependency on the risk being identified and then monitored on an ongoing basis by operational management (within the first line of defence) at the mine itself.

From there, if circumstances change, it needs to be escalated quickly and appropriately into the relevant functional experts within the second line,

The second and third lines also need to be sufficiently well connected to identify the true nature of the underlying risk and how this may then be symptomatic or thematic for other assets or jurisdictions within the Group.

We have for some time now been working on an integrated assurance and audit plan to deliver this overview, and this is a current area of focus for the Audit Committee.

But, of course, all of this system of risk management and internal control is predicated upon a culture that recognises and prioritises cultural heritage and which supports the timely and effective escalation of issues.



Fundamentally, risk frameworks are only ever as good as the information that flows through them, and the experience and judgement of individuals in key positions.

This is particularly important in a group that is of the size, scale and complexity of Rio.

To conclude, I can assure you that the Audit Committee are determined to play our part in applying the new risk management and governance rules to Communities Heritage and to ensure that the lessons learned from Juukan are applied to other risk areas, particularly other environmental and social risks.

## **Simon Thompson, Chairman, Rio Tinto**

During my visit to Western Australia last month, we held discussions with nine out of the ten Traditional Owners of the lands where we operate in the Pilbara. They told us about their sadness and anger at what has happened at Juukan. But they also expressed their hopes for a stronger, more equal, more respectful partnership with Rio Tinto.

The Traditional Owners recognise the social and economic benefits that mining can bring. But they demand the right to an equal partnership with Rio Tinto that respects local customs and traditions and enables them to fulfil their obligation to preserve their culture for future generations. And it is our responsibility to make sure that happens.

We have acted decisively to implement all the recommendations set out in the Board Review and the Interim Report of the Parliamentary Committee.

The Integrated Heritage Management Plan, will strengthen Free Informed Prior Consent and improve decision-making.

Our modernised Agreements with Traditional Owners will increase transparency and redress the imbalance of power.

And the Board will lead a sustained effort to create a more inclusive, diverse culture that will help to strengthen our partnerships with the Traditional Owners and empower both them and us to speak up, if something is not right.

When I took over as chairman of Rio Tinto, improving our ESG performance was one of my top priorities. We have made good progress on climate change. Our safety performance is the best in the history of the Group. And our response to Covid-19 was exemplary.

But the tragic events at Juukan have done enormous damage to our reputation. But I can assure you that the whole Board, including Jakob, our new CEO, are determined to learn the lessons from Juukan. And to re-establish Rio Tinto's reputation as an industry-leader in social and environmental performance.

Thank you for your attention. We would be happy to answer your questions.