

Rio Tinto plc AGM – Address by John Varley

**John Varley, non-executive director and chairman of the Remuneration Committee
Rio Tinto plc AGM, London**

12 April 2017

****Check against delivery****

Thank you Jan, and good morning ladies and gentlemen.

I'm going to spend a few minutes giving you some context on the three remuneration resolutions for which we are seeking your approval today.

These resolutions are numbered 2, 3 and 4.

We have structured the voting arrangements in the same way as last year.

This means that all shareholders can vote on all three resolutions.

Let me remind you how our Remuneration Report is structured.

The Report is divided into two sections.

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

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 2016, and how we intend to apply it in 2017.

The Implementation Report is subject to an advisory vote for UK Law purposes.
This is Resolution number 2.

The Remuneration Report as a whole, as usual, is subject to an advisory vote for Australian law purposes. This is Resolution number 3.

Resolution number 4 seeks shareholder approval of potential termination payments, which are governed by Australian law.

We believe it is appropriate, and prudent, to seek your approval to this Resolution – so that certain termination arrangements could be applied to individuals who hold managerial or executive roles, always in line with our Remuneration Policy, but without any risk of a breach of the Act or of their contracts of employment.

A similar Resolution was approved by shareholders three years ago.

I emphasise that support of this Resolution will not cause shareholders to approve any change, and, in particular, any increase, in the termination provisions that would otherwise have been applied to an outgoing employee under our Remuneration Policy.

If you approve Resolution 4, it will be effective for three years.

Resolutions 2, 3 and 4 are to be voted on at the AGMs as Joint Decision Matters by the shareholders of both Rio Tinto plc and Rio Tinto Limited, voting collectively.

The Committee determined that, for 2017, there will be no annual salary increases for the chief executive, or for the newly appointed members of the Executive Committee.

Consistent with prior years, annual salary increases for other executives are in line with the base salary budgets applying to the broader employee population.

Turning to awards under the Short Term Incentive Plan (or STIP), targets were, in the main, exceeded.

In the area of safety, the Group's all injury frequency rate in 2016 maintained the level of 2015, which itself was a significant improvement on 2014.

There was also a reduction in the number of lost time injuries and we commenced the implementation of our Critical Risk Management programme, which is designed to help us eliminate fatalities.

The combined performance against all three safety components meant that the Group achieved a safety result just above "target".

However, as you have heard, a colleague died at our Western Australia operations last June. Reductions were therefore applied to the safety element of the STIP for the chief executive and certain other executives, in accordance with our Remuneration Policy.

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

We have used this approach since 2005.

When commodity prices have risen, or 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 there are negative exchange rate variations, 50 per cent of the STIP opportunity is safeguarded against that fall.

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

In relation to the 2016 financial targets, the Remuneration Committee determined that the targets, both "flexed" and "unflexed", were exceeded.

It is worth noting that these targets were set early in 2016 when there was a very subdued outlook for commodity prices. For example, as you've heard, iron ore prices started 2016 at US\$40 per tonne and ended the year around US\$80 per tonne. These pricing features helped management, but only in relation to the "unflexed" targets.

Of course, shareholders also benefited from the unexpected increase in commodity prices, with the consequent strengthening in share price and dividend payment capacity.

Turning to the Long Term Incentive Plan, the Committee looked carefully at the Group's overall performance versus targets during the four-year performance period. It concluded that a partial vesting of awards was justified.

The 2016 single total figures of remuneration for J-S Jacques and Chris Lynch are higher than last year.

The former was primarily because J-S's base and variable pay increased when he became chief executive at the beginning of July.

The latter was largely because this is the first year that Chris has received a vested LTIP award.

The board has determined that it would be inappropriate, while investigations arising from the Simandou project are ongoing, to make any determination about Sam Walsh, or his outstanding remuneration. The company has therefore reached an agreement with Sam to defer the payment of his 2016 STIP award, and all remaining unvested LTIP awards, for a minimum of two years.

I know that shareholders expect to see strong alignment between the value of their own shareholdings and the equity-based wealth of executives.

Fifty per cent of the annual STIP awards are deferred into shares for three years, specifically to ensure that a material proportion of short-term pay is exposed over the medium term to fluctuations in our share price. And all long-term compensation is paid in shares.

We have an ongoing dialogue with shareholders about pay, and I look forward to continuing that dialogue during 2017 as we prepare to present our updated Remuneration Policy to shareholders at the 2018 AGMs.

The Committee seeks to remain alert to evolving best practice in the area of executive pay, and to the views and guidance given to us in the conversations we have with our owners.

As always, we welcome your feedback.

Back to you, Jan.

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