

Rio Tinto plc AGM – Address by the chairman

Jan du Plessis, chairman
Rio Tinto plc AGM, London

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****Check against delivery****

Good morning ladies and gentlemen,

It is my great pleasure to welcome you to Rio Tinto's 2017 annual general meeting.

Thank you for joining us today.

I also want to welcome those shareholders joining us online via the webcast.

I am pleased to report that, during 2016, your company delivered a strong performance despite challenging macroeconomic conditions and significant geopolitical uncertainty.

Change was a feature of 2016, both in the external environment and within your company. However, what has not changed is our commitment to deliver value to you – our shareholders.

Before I make a few remarks about your company's 2016 performance and our outlook for 2017, let me start with safety.

As you know, safety is of utmost importance to Rio Tinto.

Every day, at all our operations, on every shift, our teams start with a safety share.

In keeping with this practice, allow me to draw to your attention to the following key safety information shared with me by the facilities management team.

If there is a requirement for you to evacuate the building you will hear a loud sound. Please exit in an orderly fashion using the two rear exit doors.

Thank you for your attention during this safety briefing.

All your directors are present at today's meeting, either in person or via video link.

May I extend a warm welcome to Michael L'Estrange and Megan Clark who are joining us today via video link from Melbourne, Australia.

I also want to welcome for the first time our new directors David Constable, Simon Henry and Sam Laidlaw. All three of our new directors broaden the experience of the board, bringing considerable expertise in the resources sectors.

All have enjoyed long careers as executives in multinational businesses and have been directors on the boards of large global companies.

At the conclusion of the Australian AGM in Sydney next month, Robert Brown and Anne Lauvergeon will retire.

I want to thank both Bob and Anne for their significant contributions and wise counsel over the years – and, in Bob's case, additionally I would like to recognise the considerable demands of travelling from Canada to either London or Australia for so many meetings over the last seven years. We wish them both well for the future.

In July of last year, Sam Walsh retired as a director and as chief executive, and I thank him for his many years of dedicated service to the company.

His successor as chief executive, Jean-Sébastien Jacques, or J-S as he likes to be called, has hit the ground running with his executive team. They are focused on further strengthening the performance of the business.

When we announced the appointment of J-S as chief executive just over a year ago, I committed to the board to serve as chairman for a further two years, as part of a planned leadership transition. Our recent announcement of my intention to retire is therefore the logical next step in an orderly succession process.

A process to identify and appoint my successor as chairman is now under way and is being led by John Varley, our senior independent director. A successor is expected to be announced before the end of the year and I would therefore expect to stand down at any time after that, but in any event no later than the Australian AGM in May 2018.

Although I therefore recognise that this may be the last London AGM that I chair at Rio Tinto, it would be premature for me today to dwell on the past.

Much more importantly, I want to reassure you of my ongoing commitment to the company and its people, and of my determination to serve with total dedication until my very last day in office.

So, perhaps I should stop dwelling on the people on the stage, and start to talk about the real world outside!

The global economic and geopolitical environment continued to be volatile in 2016. Stagnant global trade, subdued investment and heightened policy uncertainty after a number of geopolitical shocks, resulted in another difficult year for the world economy. Global growth for 2016 was three per cent, marking five years of global GDP growth below the long-term average.

During 2016 most commodity prices increased for the first time in a number of years. As an example, iron ore prices started the year at around US\$40 per tonne, and ended the year around US\$80. However, it is important to note that, on average, commodity prices during 2016 were still lower than the year before.

The global economy starts 2017 with improved manufacturing conditions but also evidence that cost pressures and tighter credit conditions in the US, the UK and China are affecting corporate earnings growth. It would be a mistake to conclude that our challenges are getting any easier.

That is why your company's strategy is the right one, which is to invest in and operate high quality (as we say "Tier 1"), long-life, low-cost, expandable operations in the most attractive industry sectors.

Taken together with the strength of our balance sheet, ours is a strategy that seeks to weather tough times, and to reward shareholders through market cycles.

Let me turn to our financial results.

It is pleasing to report that we have made progress against each of our strategic priorities during 2016, delivering robust earnings and cash generation, whilst maintaining balance sheet strength and progressing our high-value growth options.

As pointed out a few moments ago, average prices for our products during 2016 were slightly lower than during the previous year, notwithstanding the significant uplift in the prices of some commodities in the second half. However, cost savings and other improvements in the business offset the negative impact of lower commodity prices, resulting in an increase in underlying earnings of 12 per cent to US\$5.1 billion.

At US\$8.5 billion, operating cash flow was, however, ten per cent lower than in 2015, primarily due to working capital movements and an increase in interest paid.

This performance reflects a disciplined approach to cash generation and capital allocation.

Turning to the balance sheet, during the year net debt was cut by more than US\$4 billion, from US\$13.8 billion to US\$9.6 billion. This is a great achievement by the management team and once again reflects the significant work over the past years to strengthen the company's balance sheet.

It is the combination of our strong balance sheet and our portfolio of high quality assets that should enable us to continue to reward our shareholders through the cycle.

Last year, in response to exceptional volatility, we decided that it was no longer appropriate to maintain our progressive dividend policy. We announced a new dividend policy, with a more flexible approach, which better reflects our underlying earnings and outlook.

It balances three factors: maintaining a strong balance sheet; investing for future growth; and directly rewarding shareholders. We expect total cash returns to shareholders to be in the range of 40 to 60 per cent of underlying earnings through the cycle.

When we announced the change last year, we promised a 2016 full year dividend of not less than 110 US cents per share, equivalent to US\$2 billion. I am pleased to say that we have more than kept that promise.

In February 2017, we announced cash returns to shareholders of US\$3.6 billion with respect to 2016. This comprises dividends of US\$3.1 billion and a share buy-back of US\$500 million of Rio Tinto plc shares.

This equates to 70 per cent of underlying earnings – exceeding the top end of our dividend policy range.

Since 2012, we have returned more than US\$20 billion to shareholders – a clear demonstration of our commitment to deliver cash returns to shareholders through the cycle.

While delivering shareholder value is our ultimate objective, our business operations also contribute significantly to social and economic development in the host countries and communities where we operate.

Your company is at the forefront of the industry with our commitment to tax transparency. Indeed, we have just released our seventh *Taxes paid report*.

A moment ago I mentioned the US\$20 billion in returns to shareholders since 2012. As context, I might mention that, over the same period, we have paid more than US\$32 billion in taxes and royalties.

In 2016, we made a direct economic contribution of US\$35 billion to the host countries and communities in which we operate. This includes US\$4 billion in taxes and royalties paid globally.

Rio Tinto is a major contributor to society and we are proud of the economic activity and wealth we generate through the multiple payments we make in the form of taxes, royalties, employee wages, supplier contributions and investment in communities.

Our stakeholders have an increasing interest in how we are preparing for – and how we contribute to – a low-carbon future. In response to a shareholder resolution adopted at our 2016 annual general meeting, we recently published our first climate change report, which provides information on our approach.

In the context of our carbon emissions, carbon pricing and our portfolio, I wish to draw a few key points to your attention.

We set our first greenhouse gas emissions target almost two decades ago, in 1998. In the same year, we started using carbon pricing in our business modelling and decision making.

We own 4,000 megawatts of hydropower, most of it in Canada. Of the electricity we consume, 68 per cent is from renewable sources, in the form of hydro, solar or wind. Of the electricity we generate, close to ten per cent supports local towns and communities. And since 2008, our CO₂ emissions have fallen by a third, and our emissions intensity by a quarter.

Our *Climate change report* captures our many commitments in this area and provides more insight into our approach.

In future reports, we will provide more information on scenario planning and climate risks. We are very focused on continuing to provide the metals and minerals essential to support the world's large and growing resource needs. We are also committed to continuing to do this in an energy efficient and socially responsible way.

As part of discharging its overarching governance obligations, the board believes it is important that directors regularly undertake site visits to key projects and operations.

During 2016, the board visited Oyu Tolgoi, our world-class copper and gold operation in Mongolia. It is a truly remarkable business and we are proud of the fact that it is one of the safest and most diverse in our portfolio. We were very impressed by the quality of our Mongolian leadership team and by the commitment of the employees we met.

And while speaking of governance, it would be remiss of me if I did not acknowledge the upsetting events of the final months of last year.

On 9 November 2016 we announced, following an investigation supported by external counsel, that we had notified the relevant authorities in the US, the UK and Australia about contractual payments totalling US\$10.5 million made to a consultant providing advisory services on the Simandou project in Guinea.

On 1 December 2016, Rio Tinto confirmed that it was co-operating with relevant authorities in connection to an investigation into the impairment included in the company's accounts in 2012 in respect of Rio Tinto Coal Mozambique.

The outcome of these regulatory investigations, and any potential litigation, is uncertain and I am sure you will understand there is unfortunately little more I can say at this time. However, I want to assure you that the board is giving these matters its full and proper attention. In addition, we have established a

dedicated board committee, under my chairmanship, to monitor progress. We are continuing to fully co-operate with the relevant authorities.

In closing, there is no doubt that the market and the geopolitical environment will continue to present us with the challenge of navigating both volatility and uncertainty. But, this is not new to us. Indeed these elements have characterised so much of our recent past, and will no doubt continue be a feature of our future.

As you have heard me say before, your company performs well during challenging times and I believe our 2016 performance proves this point.

We are certainly not complacent, but we are in a good shape.

We have a strong balance sheet.

We have world-class assets delivering strong earnings and cash performance.

We have high quality growth options.

And most importantly, under J-S's leadership, we have a strong and talented management team, supported by 51,000 committed employees around the world.

I feel confident your company has a great future and is in good hands.

Ladies and gentlemen, in closing, I would like to thank you, our shareholders, for your ongoing commitment and support.

With that, I have the pleasure of handing over to your chief executive, J-S Jacques.

Contacts

media.enquiries@riotinto.com

riotinto.com



Follow @RioTinto on Twitter

Media Relations, United Kingdom

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

Investor Relations, United Kingdom

John Smelt

T +44 20 7781 1654

M +44 7879 642 675

David Ovington

T +44 20 7781 2051

M +44 7920 010 978

Nick Parkinson

T +44 20 7781 1552

M +44 7810 657 556

Media Relations, Australia

Ben Mitchell

T +61 3 9283 3620

M +61 419 850 212

Anthony Havers

T +61 8 9425 8557

M +61 459 847 758

Investor Relations, Australia

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