

Resolution 1 – Amendment to the Constitution

To amend the constitution to insert beneath Clause 57 ‘Annual general meetings’ the following new sub-clause: “The company in general meeting may by ordinary resolution express an opinion or request information about the way in which a power of the company partially or exclusively vested in the directors has been or should be exercised. However, such a resolution must relate to a material risk as identified by the company and cannot either advocate action that would violate any law or relate to any personal claim or grievance. Such a resolution is advisory only and does not bind the directors or the company.”

Resolution 2 – Emissions Targets

Recognising the company’s commitment to the Task Force on Climate-related Financial Disclosures and the aims of the Climate Action 100+, shareholders request that the company, in subsequent annual reporting, disclose short, medium and long-term targets for its scope 1, 2 and 3 greenhouse gas emissions and performance against those targets.

All targets should be independently verified as aligned with the climate goals of the Paris Agreement.

Supporting Statement 1

Shareholder resolutions are a healthy part of corporate democracy in many jurisdictions other than Australia. For example, in the UK shareholders can consider resolutions seeking to explicitly direct the conduct of the board. In the US, New Zealand and Canada shareholders can consider resolutions seeking to advise their board as to how it should act. As a matter of practice, typically, unless the board permits it, Australian shareholders cannot follow the example of their UK, US, New Zealand or Canadian cousins in this respect.

A board of Directors is a steward for shareholders and accountability for the discharge of that stewardship is essential to long-term corporate prosperity.

In rare situations the appropriate course of action for shareholders dissatisfied with the conduct of board members is to seek to remove them. But in many situations such a personality-focused approach is unproductive and unwarranted. In those situations a better course of action is to formally and publicly allow shareholders the opportunity at shareholder meetings such as the AGM to alert board members that the shareholders seek more information or favour a particular approach to corporate policy.

The Constitution of Rio Tinto is not conducive to the right of shareholders to place resolutions on the agenda of a shareholder meeting.

In our view, this is contrary to the long-term interests of Rio Tinto, the Rio Tinto board and all Rio Tinto shareholders.

Passage of this resolution – to amend the Rio Tinto constitution – will simply put Rio Tinto in a similar position in regard to shareholder resolutions as any listed company in the UK, US, Canada or New Zealand.

We encourage shareholders to vote in favour of this resolution.

Supporting statement 2

The Paris Agreement on climate change aims to hold global warming to well below 2°C above pre-industrial levels and pursue a 1.5°C limit,¹ and has been ratified by 185 countries. Governments and markets are expected to accelerate climate action in order to achieve these goals.

According to the IPCC, “In model pathways with no or limited overshoot of 1.5°C, global net anthropogenic CO₂ emissions decline by about 45% from 2010 levels by 2030... reaching net zero around 2050.”²

Scope 1 and 2 emissions

On 26 February 2020, Rio Tinto announced it plans to reduce absolute scope 1 and 2 greenhouse gas emissions by 15% by 2030 from a 2018 baseline. These targets fall well short of what can be considered consistent with the Paris Agreement. Following the Science Based Targets initiative’s Absolute Contraction Approach, Paris-alignment would require at least a 30% reduction on Scope 1 and 2 emissions over the same timeframe.

Scope 3 emissions

Rio Tinto aspires to achieve “a substantial decarbonisation of our business by 2050,”³ and plans to “set new targets to replace the current [scope 1 and 2] emissions intensity target before it expires in 2020.”⁴ However, these targets will only deal with 5% of the total emissions our company is exposed to.

Rio Tinto’s 2018 greenhouse gas emissions were:⁵

- Scope 1: 17.8 million tCO₂e
- Scope 2: 10.8 million tCO₂e
- Scope 3: 536.0 million tCO₂e

The vast majority of Rio Tinto’s scope 3 emissions are generated by its iron ore customers in the steelmaking process. In 2018, Rio Tinto’s iron ore business accounted for \$11.3 billion of our company’s total Underlying EBITDA of \$18.1 billion (62%).⁶ According to IPCC analysis, holding warming to 1.5°C will require emissions from industry, including steelmaking, to fall by around 40% from 2010 levels by 2030 and more than 80% by 2050.⁷

Meeting the Paris climate goals will require the steel industry to either decarbonise or decline. Rio Tinto must therefore demonstrate Paris-aligned decarbonisation plans in order to manage down the transitional climate risk posed by its large exposure to the steelmaking sector.

Last year’s agreement with China Baowu Steel Group and Tsinghua University to explore methods to reduce carbon emissions across the steel value chain lacks any detail or commitment to ensure Paris-aligned emission reductions.⁸

¹ https://unfccc.int/sites/default/files/english_paris_agreement.pdf, Article 2(1)(a)

² <https://www.ipcc.ch/sr15/chapter/summary-for-policy-makers/>, C.1

³ Climate Change Position Statement (available at <https://www.riotinto.com/sustainability/climate-change>)

⁴ Climate Change Approach 2018 (available at <https://www.riotinto.com/sustainability/climate-change>), 29

⁵ Ibid 26

⁶ <https://www.asx.com.au/asxpdf/20190228/pdf/4431vcxw1yny9l.pdf>, 27

⁷ https://www.ipcc.ch/site/assets/uploads/sites/2/2019/02/SR15_Chapter2_Low_Res.pdf, 139

⁸ <https://www.riotinto.com/news/releases/MOU-with-Chinese-partners>

Rio Tinto lagging peers

In a July 2019 speech, then BHP CEO Andrew Mackenzie stated BHP's commitments "to work with the shippers, processors and users of our products to reduce scope 3 emissions," and "To measure our stewardship of BHP's products in 2020 we will also set public goals to address scope 3 emissions."⁹

BHP has since confirmed:¹⁰

These goals will be set consistent with all of the following principles:

- Risk-based: focused on material risks and opportunities;
- Measurable, accountable and time-bound: clearly defined with clear responsibilities for delivery and against which it is possible to measure progress over a defined timeframe;
- Paris-aligned: support decarbonisation pathways for our products in line with the goals of the Paris Agreement;
- Collaborative: engage the right partners to support action at the point of operational control;
- Outcomes-focused: deliver tangible outcomes and value rather than focus only on activity;
- Attainable: recognise our stewardship role relating to sold products as compared to the operational control of our managed facilities;
- Based on consultation: engage with external expert and/or academic parties to inform the development of appropriate goals;
- Assured: reporting will be subject to external verification and assurance.

Vale in December 2019 committed to "reduce greenhouse gas emissions aligned with the Paris Agreement and be carbon neutral by 2050," and will soon set targets for its steelmaking and shipping scope 3 emissions.¹¹

By contrast, Rio Tinto's board last year recommended shareholders vote against a resolution calling for emission reduction targets, claiming:¹²

Rio Tinto cannot commit to provide Scope 3 emissions reduction targets (as required by the resolution) as these are targets, ultimately, for our customers. We have very limited control over the emissions themselves or future measures to abate them.

Our company's position inaccurately characterises scope 3 emission reduction targets as directives towards our customers, rather than a sensible risk-mitigation measure. This is underscored by our major competitors committing to do what our board has said it cannot.

Investor and regulator expectations

The G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) published its final recommendations in 2017, designed to allow investors to "appropriately assess and price climate-related risk and opportunities."¹³ Regulators and investors now expect companies to fully comply with the TCFD recommendations.

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<https://www.bhp.com/media-and-insights/reports-and-presentations/2019/07/evolving-our-approach-to-climate-change>

¹⁰ <https://www.bhp.com/environment/climate-change>

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http://www.vale.com/EN/investors/information-market/presentations-webcast/PresentationsWebcastsDocs/Vale%20Day%20NY%202019_i%20Vsite.pdf, 24-25

¹² <https://www.asx.com.au/asxpdf/20190318/pdf/443kkwnkw7pzh2.pdf>, 3

¹³ <https://www.fsb-tcfid.org/publications/final-recommendations-report/>

The Australian Government welcomed the TCFD recommendations, encouraging “all stakeholders to carefully consider the recommendations of the Taskforce.”¹⁴ ASIC foreshadowed regulatory action after its September 2018 report found many companies were breaking the law by failing to adequately consider and disclose climate risk.¹⁵

All respondents to Morrow Sodali’s 2019 Institutional Investor Survey believe companies with material exposures to climate-related risks should adopt the TCFD recommendations.¹⁶ The Australian Council of Superannuation Investors (ACSI) expects TCFD adoption to ensure companies can “successfully identify and manage the climate risks and opportunities [they] face.”¹⁷

Rio Tinto signed up as a supporter of the TCFD in 2017,¹⁸ but is yet to fully comply with the recommendations.

A core TCFD recommendation is to:¹⁹

Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Elaborating on this recommendation, the TCFD states:²⁰

Organizations should describe their key climate-related targets such as those related to GHG emissions... in line with anticipated regulatory requirements or market constraints or other goals.

Given Rio Tinto’s significant exposure to climate change transition risks, our company must apply this integral recommendation of the TCFD to its scope 3 emissions.

We therefore encourage shareholders to vote in favour of this resolution.

¹⁴ https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Carbonrisk/disclosure45/Government_Response, 3

¹⁵ <https://download.asic.gov.au/media/4871341/rep593-published-20-september-2018.pdf>

¹⁶ <https://www.morrowsodali.com/news/institutional-investor-survey-2019>, 20

¹⁷ <https://www.acsi.org.au/images/stories/ACSIDocuments/ACSI-Governance-Guidelines.Nov17.pdf>, 26

¹⁸ https://www.riotinto.com/documents/RT_Our_approach_to_climate_change_2018.pdf, 9

¹⁹ <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>, 14

²⁰ <https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>, 23