Blackwattle

14 May 2024

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

To Chairman Dominic Barton, Members of the Board, and CEO Jakob Stausholm:

On behalf of Blackwattle Investment Partners Pty Ltd and our clients who have entrusted us to manage their capital, we are writing to you as collective shareholders in Rio Tinto PLC (RIO).

Blackwattle Investment Partners is an Australian based investment manager built on the foundation of Investment Excellence, Transparency and Governance. Blackwattle Investment Partners oversees funds for family office groups and high net worth individuals, offering a diverse range of ASX equities strategies alongside a global equity strategy.

Our philosophy is built on investing in companies with quality assets and market positions. Moreover, we seek out aligned management teams that uphold the highest standard of Corporate Governance. Guided by our core principles of Quality, Alignment, and Trust, we strive to serve our clients with integrity and excellence.

Firstly, we commend you for the efforts undertaken to fortify the company's culture and enhance its risk management capabilities. Your strategic focus on the company's social license, underscored by the objectives of "Best Operator, Impeccable ESG Credentials, Excel in Development, and Social License," in 2022, deserves recognition.

Additionally, we also welcome the greater emphasis on workplace safety and culture and commend you for implementing the recommendations from the "Everyday Respect Report". We acknowledge that cultural transformations take time, and we acknowledge your leadership in initiating these essential changes, which are pivotal in safeguarding shareholder interests from the adverse effects of subpar corporate cultures.

Turning to specific matters, we wish to address two key concerns:

1) We implore the company to remain disciplined on capital allocation; and

2) We believe substantial shareholder value can be created by unifying RIO's DLC structure.

On the first matter, we urge the company to exercise prudence and discipline in capital allocation.

Despite recent industry speculation regarding mergers and acquisitions, we advocate for restraint against entering competitive acquisition processes. We firmly believe that the price paid for any asset is the primary driver of shareholder value creation and should not be overshadowed by the lure of potential returns from synergies or other non-financial strategic benefits. Thus, we advocate for a focus on optimizing existing assets and delivering on current growth projects, leveraging the capital already committed.

As shareholders, we recognise the unparalleled value Rio Tinto's interest in the Western Australian Pilbara Iron Ore operations. These are highly prized assets, unique in the commodity complex in terms

Blackwattle Investment Partners Pty Ltd
Ground Floor, 117 Clarence St,
Sydney NSW 2000
+61 2 7208 9922

info@blackwattlepartners.com
www.blackwattlepartners.com
ABN 24 663 839 094
AFSL Licence No: 547617

of scale, cost position, reserve life, and returns generated for shareholders. Therefore, we implore the board to regard the funds generated from these assets with utmost sanctity, directing them solely towards projects or acquisitions that align with rigorous hurdle rates, safeguarding against any dilution of shareholder returns.

Additionally, we advocate for enhanced detail, transparency, and increased engagement concerning the company's approach to capital allocation considering complexities of commodity price assumptions, increasing sovereign risk, and permitting challenges.

Capital allocation, in our view, is one of the most important elements of the strategy set by the board and management. It is a key driver and differentiator of company performance over the long run, especially when considering the mining sector's notorious history of pro-cyclical acquisitions. Rio Tinto's own history is a stark reminder of the value destruction caused by acquisitions when commodity prices are above cost curve support levels[1].

Although Rio Tinto has addressed its approach to capital management in corporate presentations, we urge for deeper insights into the thoroughness of decision-making processes, risk mitigation strategies, and more importantly return hurdles based on specified commodity price scenarios. Our benchmark for comparison is your largest industry peer[2], who has publicly outlined its principles for these areas of concern.

Secondly, we believe Rio Tinto may be overlooking the most immediate and lowest risk opportunity to enhance shareholder returns, the opportunity to unify RIO's dual listing company structure or by enacting other measures to close the valuation gap between the two classes of shares.

At present, the current implied valuation discount between Rio Tinto PLC and Rio Tinto Limited is 18%. This implies a total valuation discount of USD $27 billion in market value, to the determinant of Rio Tinto PLC shareholders[3].

We contend that the dual-class structure is antiquated and advocate for a shift towards a single-class structure, in line with best corporate governance practices and the interests of all shareholders.

Unifying the structure would not only enhance market efficiency in valuing Rio Tinto PLC but also streamline company administrative processes, fostering greater flexibility[4].

To this end, we propose the following options to bridge the valuation gap between the ordinary share classes:

1) Unify DLC structure: This is the most straightforward and our preferred option, where Rio Tinto Limited would become the primary listing, benefiting Rio Tinto PLC shareholders with a higher market valuation. Rio Tinto PLC shareholders would receive Rio Tinto Limited shares in the form of depository interests that can be traded on the LSE. The primary ASX listing would also align the primary listing to where most company profits are generated, Western Australian Iron Ore Operations, to which clearly Australian investors place a much higher value.

2) PLC Off-Market Share Buyback: Rio Tinto PLC could return capital via an equal off-market buyback at the prevailing Rio Tinto Limited price. An agreement should be made with the foreign major shareholder to ensure compliance with foreign ownership rules, so that foreign major shareholders tender into the buyback on a pro-rata basis. Foreign major shareholders

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[1] Rio Tinto makes a recommended all cash offer for Alcan 12 July 2007
[2] BHP Capital allocation briefing – 21 November 2018
[3] Rio Tinto PLC and Rio Tinto Limited Share prices as of 10 May 2024
[4] BHP to proceed with Unification proposal 2 December 2021

could also provide further undertakings to the respective Government should they wish to disproportionately participate in the buy back. Rio Tinto should judiciously engage with the major foreign shareholder as the inability to conduct an off market buy back in PLC shares is oppressing other minority PLC shareholders. We remind you of your fiduciary duties to all shareholders.

3) **Rio Tinto PLC secondary listing on the ASX**: While this adds more complexity to the existing DLC structure, a secondary listing on the ASX, whilst maintaining the Rio Tinto Limited listing should be effective in closing the valuation gap as this would allow Australian institutional funds prohibited from buying Rio Tinto PLC on the LSE to buy both classes of share structures on the ASX. While Two Rio Tinto listings on the ASX is not ideal, it could be considered as it would enable Australian investors to price tax differences on dividends more efficiently given limitations on owning foreign securities for most domestic Australian funds. The fungible nature of Rio Tinto PLC on the LSE and a secondary Rio Tinto PLC listing on the ASX would likely eliminate the current different market price anomaly. Further supporting the high likelihood of a higher valuation of Rio Tinto PLC on the ASX is evidence from recent secondary listings of several mining companies[5].

In conclusion, we urge the board and management team to prioritise disciplined capital allocation, enhance transparency on capital allocation frameworks, and promptly address the opportunity for value enhancement through unifying Rio Tinto PLC and Rio Tinto Limited.

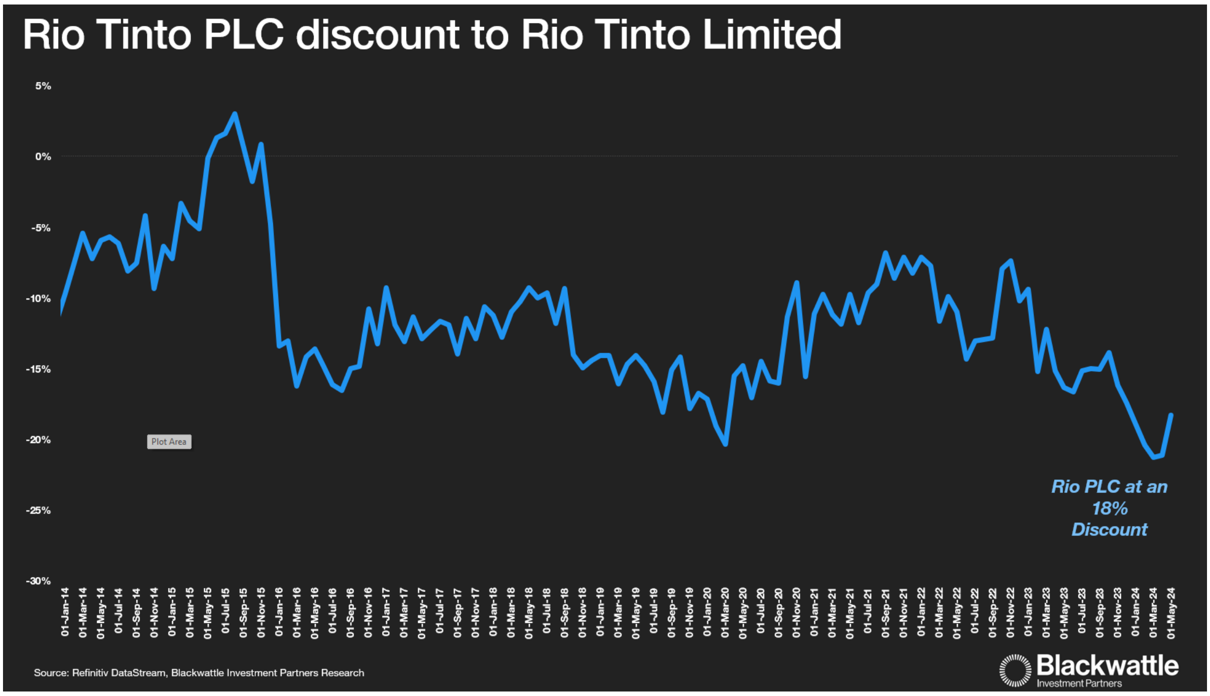
We look forward to engaging with you further, and happily offer up our time to discuss these matters.

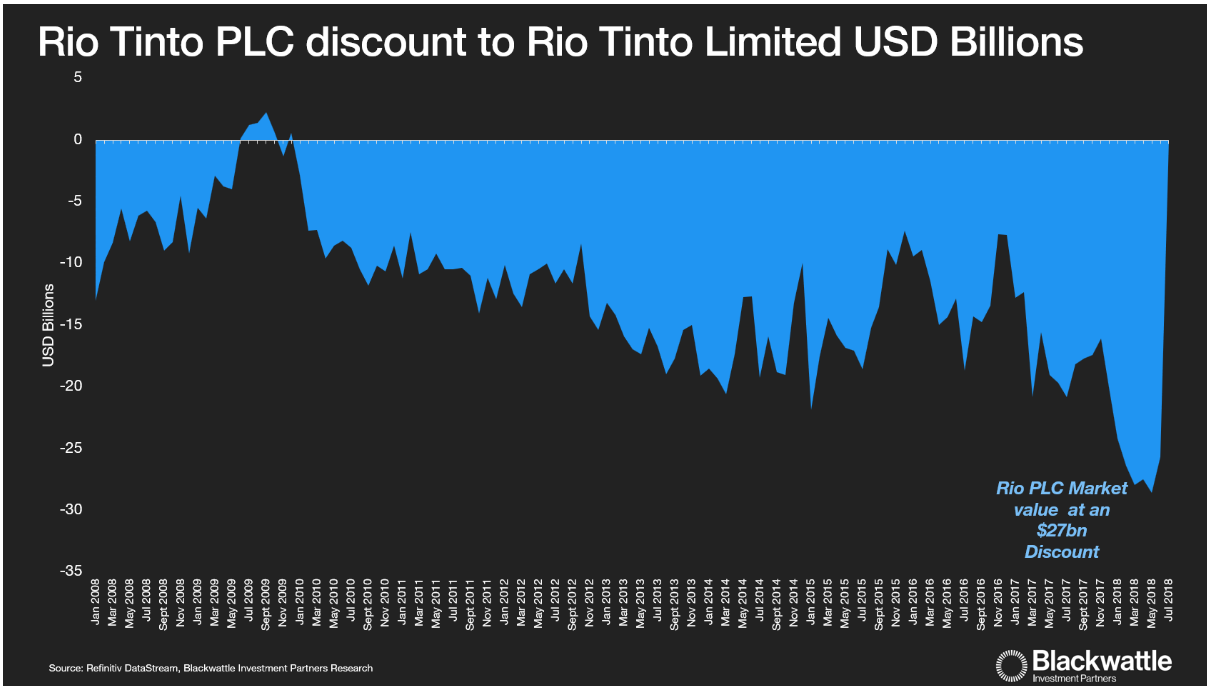
Yours sincerely,

Ray David
Portfolio Manager and Partner
Blackwattle Investment Partners
rdavid@blackwattlepartners.com

Joseph Koh
Portfolio Manager and Partner
Blackwattle Investment Partners
jkoh@blackwattlepartners.com

[5] Metals Acquisition CDI (MAC.AX) and Capstone Copper (CSC.AX).


Rio Tinto PLC discount to Rio Tinto Limited
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
Rio PLC at an 18% Discount
Source: Refinitiv DataStream, Blackwattle Investment Partners Research
Blackwattle Investment Partners


Rio Tinto PLC discount to Rio Tinto Limited USD Billions
USD Billions
5
0
-5
-10
-15
-20
-25
-30
-35
Rio PLC Market value at an $27bn Discount
Source: Refinitiv DataStream, Blackwattle Investment Partners Research
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Rio Tinto PLC discount to Rio Tinto Limited USD $m

	Issued shares (m)	%	Px LC	USD FX/LC	USD Px	Total Shares on issue (m)	Mkt Cap USD m
RIO.AX	371	23%	$127.66	0.66	$84.26	1,627	137,071
RIO.L	1,256	77%	£53.97	1.27	$68.54	1,627	111,507
Total	1,627						
Difference							25,564

Source: Refinitiv DataStream, Blackwattle Investment Partners Research

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