

### Letter from the Remuneration committee chairman

Dear Shareholder,

As the new chairman of the Remuneration committee, I am pleased to introduce our report on remuneration for 2011, for which we seek your support at our annual general meetings in London in April, and in Brisbane in May.

The report is designed to provide you with the necessary information to demonstrate the link between our Group's strategy, its performance, and the remuneration outcomes for its executives. It is also intended to deliver the remuneration disclosures required by Australian and UK regulation.

In writing to you, I am fully aware of the strength of feeling which the subject of executive remuneration provokes; and I'm aware too that many of our shareholders have registered their concerns through their votes and abstentions on the remuneration report at our recent annual general meetings. Both the board and the Remuneration committee have reflected very carefully on this. I realise that the decisions made by the Committee will not always please all our owners: if we seek perfect consensus among shareholders, I'm afraid we will seek in vain. But we are conscious of our obligation to be as accessible to you as we can so that, on behalf of the board, I hear your views, and try to answer your questions; and in so doing, carry those opinions into our decision-making forums. Since my appointment I have met a number of major shareholders in the UK and in Australia and this process has been invaluable to me in understanding shareholders' perspectives on legacy and current issues.

Reflecting shareholder feedback, we will be bringing to our 2013 annual general meetings proposals relating to the future structure of our incentive plans. We intend to consult widely on these proposals, and on the broader remuneration context, particularly during 2012, so that by the time we make our recommendations to you in 2013, we will have had the benefit of the thoughts and feedback of as many major shareholders as practical.

Our remuneration strategy and policies focus on using remuneration resource to help implement a successful corporate strategy that will create superior value for our shareholders over the long term. We see that resource as yours; and our endeavour is to use it wisely to promote and protect your interests. We want to use it to ensure that your Company can attract, motivate and retain the high quality and committed people that are critical to lead the business.

We seek to reward employees fairly and responsibly, by providing an appropriate balance between fixed and variable remuneration, the payment of which is linked to the achievement of what are intended to be demanding Group and individual performance measures. But our aim is to pay no more than is necessary to achieve this goal.

Whilst we delivered another record year of underlying earnings performance, short term incentive payments are, on average, lower than in 2010 as the Group did not outperform to the same extent, the challenging financial and safety targets set by your Board for 2011. I also acknowledge the responsibility shown by Tom Albanese and Guy Elliott in informing the Remuneration committee that they did not wish to be considered for an annual bonus in the light of the impairments in our Aluminium business. The Committee's decision endorsed this request.

This year, we have introduced a different format to the remuneration report. We have responded to the request for greater simplicity by providing you with the essential remuneration narrative in the first sections of the report, amplified by the ever-increasing disclosures required by Australian and UK statute and regulation which appear, piece by piece, in the pages that follow. So the sections which follow this letter are:

- About the report
- Our remuneration strategy and approach
- What we paid our executive directors and why
- Remuneration committee responsibilities, independent advisers, and how the Committee spent its time in 2011
- Appendix: detailed remuneration disclosures.

We hope this presentation makes our approach, and the facts behind it, more accessible. We would find it very helpful to know in due course what you think.

Yours sincerely,



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John Varley  
Remuneration committee chairman

## About the report

This report has been prepared in accordance with applicable legislation and corporate governance guidance in the UK and Australia. Australian legislation requires disclosures in respect of “key management personnel”, being those persons having authority and responsibility for planning, directing and controlling the activities of the Group. For the purposes of this report, the key management personnel are, in addition to the directors, members of the Executive committee. The Executive committee comprises the executive directors, product group chief executive officers (PGCEOs) and Group executives. Throughout this report, the members of the Executive committee are collectively referred to as “executives”. The executives are listed on page 103 together with the positions held during the year and dates of appointment.

Australian legislation further requires disclosures in respect of the five highest paid executives below board level selected from the senior managers who make, or participate in making, decisions that affect the whole, or a substantial part, of the business of the Group, or have the capacity to significantly affect the Group’s financial standing. The Committee has determined that below board level, only members of the Executive committee constitute the group of senior managers that make decisions that affect the whole, or a substantial part, of the business of the Group.

In addition to executive remuneration, this report covers the chairman’s and the non-executive directors’ remuneration on page 105.

## Our remuneration strategy and approach

Rio Tinto operates in global and local markets where it competes for a limited pool of talented executives. High quality people, who are capable of achieving stretching performance targets, are essential to generating superior returns for the Group. Our people and remuneration strategies aim to provide this support by enabling the Group to attract and retain talent that will maximise shareholder value.

We aim to engage people over the long term by fostering diversity, providing challenging work and development opportunities, and rewarding for performance. This people strategy is underpinned by our group wide values of respect, integrity, accountability and teamwork and our employee commitment to provide sustainable growth and development for both Rio Tinto and our employees.

Our remuneration strategy is based on the principles of aligning remuneration arrangements with the Group wide strategic drivers, and empowering employees by differentiating top performers, whilst achieving simplicity and transparency in the design and communication of remuneration arrangements. The remuneration strategy and supporting policies, and how they support our overall business strategy for achieving our vision to be the leading global mining and metals company, are set out below and in the executive remuneration structure table on pages 101 and 102.

### Competitive, performance-related remuneration

We provide competitive rewards that attract, retain and motivate executives of the high calibre required to lead the Group while ensuring rewards remain appropriate compared to market practice and when compared to remuneration arrangements for other employees in the Group.

- The majority of remuneration is linked to demanding performance targets over both the short and long-term to ensure that executive rewards are aligned with performance delivered for shareholders.

- For the purposes of assessing the appropriate level of executive remuneration, the Committee references the FTSE30, (excluding financial services companies, and with due regard for size and complexity) as the initial comparator group. The FTSE30 is considered the most relevant comparator group as it comprises organisations broadly comparable to the Group in terms of global reach, revenue, market capitalisation and complexity. Additional references are also made to other relevant supplementary comparator groups including a cross-section of comparable international industrial organisations and other international mining companies where appropriate.
- Typically, base salaries will be positioned at the median of these comparator groups, with total remuneration positioned across the full market range according to individual and business performance.

### Health and safety

We promote and reward sustainable development, with a strong focus on health and safety in the Short Term Incentive Plan (STIP) targets.

- As an organisation, we strive for superior long term shareholder value creation in a healthy, safe and environmentally appropriate way. These are key elements of our commitment to operational excellence and licence to operate.
- Health and safety key performance indicators (measured in relation to all injury frequency rate (AIFR), Significant Potential Incidents (SPI) and Semi Quantitative Risk Assessment (SQRA™)), comprise 17.5 per cent of the STIP for executives.
- The extent of the impact of a fatality on the STIP score for all executives is based on an assessment by the Committee of the impact of leadership, individual behaviour and systems in the incident.
- For some executives, where relevant, an additional proportion of their individual objectives under the STIP are linked to safety objectives.

### Long term focus

Consistent with our strategy of investing in and operating large, long term, cost competitive mines and businesses we provide incentive plans that focus on longer term performance.

- Our incentive plans are designed to promote and reward decision making with a positive long-term impact while avoiding excessive risks.
- Half of the STIP is deferred into shares which vest after three years.
- The performance based options and shares have a three and four year time horizon, respectively.
- Options may be exercised up to ten years after the grant.

### Shareholder alignment

We reward executives for delivering shareholder value by using relative Total Shareholder Return (TSR) as the metric for our performance based long term incentive plans (LTIP).

- Rewards are delivered based on the relative standing of our performance against both the HSBC Global Mining Index and the broader market of large global companies as measured through the Morgan Stanley Capital World Index (MSCI).
- TSR is considered an appropriate performance measure for the long term incentive plans as it captures objectively the return Rio Tinto delivers to its shareholders over the long term and rewards executives based on the Group’s TSR performance against its comparators.
- The choice of both the HSBC Global Mining Index and MSCI reflects the fact that Rio Tinto competes against a global market for investors as well as within the mining sector and is consistent with rewarding executives for providing stable returns over the long term relative to the broader market and the mining sector.
- The Remuneration committee is currently reviewing the performance measures for the LTIP to ensure that they remain aligned with long-term value creation for shareholders.

## Remuneration report continued

### What we paid our executive directors and why

This section provides an overview of 2011 remuneration for the executive directors. This includes details of the key elements of remuneration and a summary of total remuneration for 2011.

#### Tom Albanese (chief executive)

##### Base salary

Base salaries are reviewed annually, with reference to underlying Group and individual performance; global economic conditions; role responsibilities; an assessment against relevant comparator groups; and base salary budgets applying to the broader employee population. The Committee has increased Tom's base salary by 2.5 per cent effective 1 March 2012. This was below the average increase for Rio Tinto employees in the UK.

	2012	2011	% change
Base salary (stated in £'000)	1,056	1,030	2.5

##### STIP objectives for 2011

In addition to the health, safety and financial measures summarised in the executive remuneration structure table on page 101, the following individual objectives were set for 2011:

- Continue to advance the portfolio towards large, long-term, cost competitive mines and businesses.
- Maintain or improve controllable cost performance against 2011 targets.
- Demonstrate progress in Mongolia and Guinea.
- Longer term objectives commensurate with the longer term nature of the business include:
  - Ensure Rio Tinto's portfolio remains strong.
  - Build upon distinctive sector competitive advantage in areas of operational excellence, sustainable development, innovation, and exploration.
  - Improve diversity (by gender and nationality) to become more effective on a global basis.
  - Maintain capital discipline – especially on transactions through the commodity cycle.

##### STIP outcomes for 2011

- Tom led the Group in achieving record underlying earnings and record cash flow results in 2011.
- The Group's safety performance was disappointing. There were six fatalities in 2011. The target 15 per cent reduction in the AIFR was not achieved; however near or above target results were achieved for the other key health and safety measures.
- Tom's achievement against his personal objectives was seen as strong. In particular:
  - Good progress has been made around our large projects, such as Simandou.
  - In relation to Oyu Tolgoi, we strengthened our position with the Mongolian government as well as over Ivanhoe – rounded off by our recent acquisition of control of that company.
  - Resource nationalism and geopolitical tensions remain serious threats throughout the resource sector and Tom invested considerable energy in the strengthening of Rio Tinto's position as a global player.
- Tom notified the Remuneration committee that he did not wish to be considered for an annual bonus, recognising the significant impairment charge in relation to our aluminium business. The Remuneration committee's decision endorsed this request.

##### LTIP awards granted in 2011

Award levels are set so as to incentivise executives to meet the long-term strategic goals of the Group, to provide sufficient retention for the executive team and to contribute towards the competitiveness of the

overall remuneration package. The expected value of awards granted in 2011, based on the fair value calculations performed by independent advisers, was 190 per cent of base salary (£1,957,000). The eventual value of the award will depend on performance during the years 2011-2014.

##### LTIP awards for 2012

The Remuneration committee has decided that the award level in 2012 should again have an expected value of 190 per cent of base salary (£2,006,400). The eventual value of the award will depend on performance during the years 2012-2015.

##### LTIP outcomes for the period ended 31 December 2011

The performance shares under the Performance Share Plan (PSP) awarded in 2008 had a four year performance period that ended on 31 December 2011. This award did not vest. Share options under the Share Option Plan (SOP) granted in 2009 had a performance period that ended on 31 December 2011. This award has vested in full. Tom has an option over 72,029 shares at a price of £16.53 per share. The market price of Rio Tinto plc shares at 20 February 2012 being the latest practicable date before the date of publication of this report was £37.06. These options can be exercised from 17 March 2012. Further details of the awards vesting in 2012 and in prior years are provided on pages 98 and 112.

##### Shareholding policy

The Committee has determined that executive directors should aim to reach a holding equivalent in value to two times their base salary. At 20 February 2012 the value of Tom's holding was 7.7 times his current base salary.

##### Pension

Tom's target defined benefit pension is equal to two-thirds of basic salary at age 60, through funded and unfunded arrangements as provided to other UK based employees. This is inclusive of benefits accrued in the US. The accrued pension as at 31 December 2011 was £476,000 per annum, (31 December 2010: £395,000 per annum). Further details are set out in table 2 on page 109.

##### Total remuneration

The table below provides a summary of actual remuneration in respect of 2009, 2010 and 2011 stated in pounds sterling. This is in addition to statutory disclosure requirements. The purpose of this table is to enable shareholders to better understand the actual remuneration received and to provide an overview of the actual outcomes of the Group's remuneration arrangements. The remuneration details set out in table 1a on pages 106 and 107, include theoretical accounting values relating to various parts of the remuneration packages, most notably LTIP arrangements. Accordingly, the numbers below are not directly comparable with those in table 1a.

(stated in £'000)	2011	2010	2009
Base salary paid <sup>(a)</sup>	1,010	907	907
STIP payment – cash	0	797	589
STIP payment – deferred shares <sup>(b)</sup>	0	797	0
<b>Total short-term pay</b>	<b>1,010</b>	2,501	1,496
Expected value of LTIP awards granted <sup>(c)</sup>	1,957	1,723	1,723
Pension <sup>(d)</sup>	1,230	1,105	784
Other benefits <sup>(e)</sup>	269	208	211
<b>Total remuneration</b>	<b>4,466</b>	5,537	4,214
Percentage change in total remuneration (2011 versus 2010; 2010 versus 2009)	(19.3%)	31.4%	–
Percentage of maximum STIP awarded	0	87.8%	54.1%
Percentage of maximum STIP forfeited	100%	12.2%	45.9%
Percentage of target STIP awarded	0	146.4%	108.2%

(a) Salary paid in the financial year to 31 December. Salaries are reviewed with effect from 1 March.

(b) Value of STIP deferred under the Bonus Deferral Plan (BDP).

(c) Based on the expected value of awards (PSP awards are calculated to have an expected value of 65 per cent of face value, SOP awards are calculated to have an expected value of 20 per cent of face value).

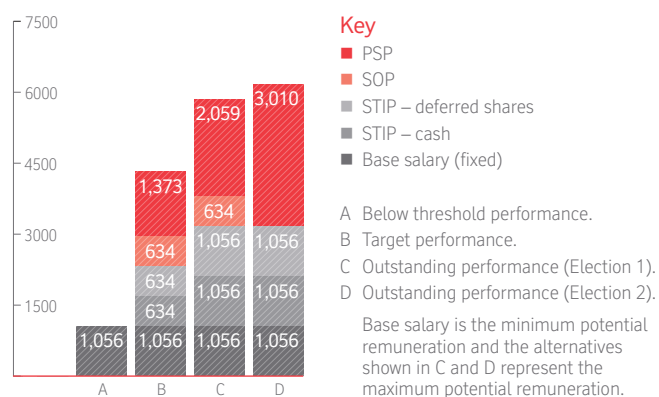
(d) Pension represents the value of one year's pension accrual calculated using an IAS19 methodology and assumptions on rates of investment return, inflation and salary increases and is sensitive to changes to those assumptions.

(e) Includes health care, provision of a car and driver and other contractual payments.

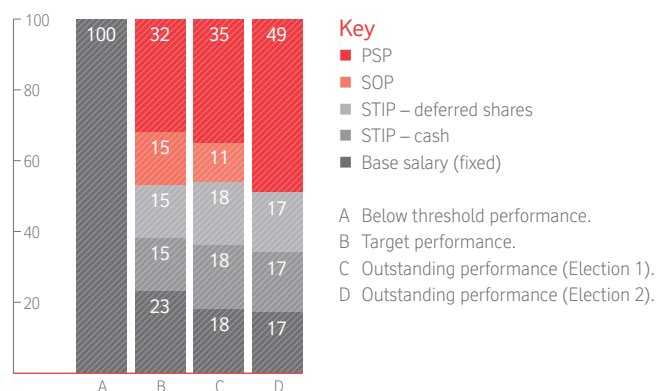
The graphs below show the value of the 2012 remuneration package at below threshold, target and outstanding performance levels together with the proportion of the package delivered through fixed and variable reward. Election 1 provides a mix of performance shares under the PSP and performance options under the SOP and Election 2 provides the full LTIP opportunity in performance shares. Under the PSP, one and a half times the original award can vest for outstanding performance.

The PSP, SOP, STIP-deferred shares and STIP-cash are all performance related remuneration.

### Potential value of 2012 remuneration package £'000



### Proportion of remuneration package value delivered through fixed and performance-related reward %



## Guy Elliott (chief financial officer)

### Base salary

Base salaries are reviewed annually, with reference to underlying Group and individual performance; global economic conditions; role responsibilities; an assessment against relevant comparator groups; and base salary budgets applying to the broader employee population. The Committee has increased Guy's base salary by 2.5 per cent effective 1 March 2012. This was below the average increase for Rio Tinto employees in the UK.

	2012	2011	% change
Base salary (stated in £'000)	738	720	2.5

### STIP objectives for 2011

In addition to the health, safety and financial measures summarised in the executive remuneration structure table on page 101, the following individual objectives were set for 2011:

- Continue to advance the portfolio towards large, long-term, cost competitive mines and businesses.
- Enhance value through M&A transactions.
- Expand marketing capabilities and competencies.
- Complete balance sheet transition and recover single 'A' credit rating.

### STIP outcomes for 2011

- Guy was part of the Executive committee that led the Group in achieving record underlying earnings and record cash flow results in 2011.
- The Group's safety performance was disappointing. There were six fatalities in 2011. The target 15 per cent reduction in the AIFR was not achieved; however near or above target results were achieved for the other key health and safety measures.
- Guy's achievement against his personal objectives was seen as strong. In particular:
  - Rio Tinto completed approximately US\$6.3 billion in well executed acquisitions, completed several divestments such as Luzenac and Colowyo and prepared for the divestment of Pacific Aluminium.
  - A stronger balance sheet allowed the Group to recover a single 'A' credit rating with all four agencies, and the Group undertook an additional US\$2 billion share buy-back programme.
  - Improved marketing leadership.
- Guy notified the Remuneration committee that he did not wish to be considered for an annual bonus, recognising the significant impairment charge in relation to our aluminium business. The Remuneration committee's decision endorsed this request.

### LTIP awards granted in 2011

Award levels are set so as to incentivise executives to meet the long-term strategic goals of the Group, to provide sufficient retention for the executive team and to contribute towards the competitiveness of the overall remuneration package. The expected value of awards granted in 2011, based on the fair value calculations performed by independent advisers, was 190 per cent of base salary. The eventual value of the award will depend on performance during the years 2011-2014.

### LTIP awards for 2012

The Remuneration committee has decided that the award level in 2012 will again have an expected value of 190 per cent of base salary (£1,402,200). The eventual value of the award will depend on performance during the years 2012-2015.

### LTIP outcomes for the period ended 31 December 2011.

The performance shares under the PSP awarded in 2008 had a four year performance period that ended on 31 December 2011. This award did not vest. Share options under the SOP granted in 2009 had a performance period that ended on 31 December 2011. This award has vested in full. Guy has an option over 53,615 shares at a price of £16.53 per share.