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**4 December 2024**

**The Board of Directors**
Rio Tinto plc
6 St James's Square
London SW1Y 4AD
United Kingdom

Rio Tinto Limited
Level 43
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Melbourne VIC 3000
Australia

Dear Members of the Board (the "**Board**"),

We write to you on behalf of Palliser Capital (UK) Limited and its affiliates (together, "**Palliser**", "**we**", "**us**" or "**our**"), which have a substantial investment in Rio Tinto (Rio Tinto Plc ("**PLC**") and Rio Tinto Limited ("**LTD**") collectively referred to as "**Rio Tinto**"). Our investment is one of our largest public equity positions, reflecting our strong conviction in the value embedded within Rio Tinto.

Palliser is a global multi-strategy investment firm that adopts a value-oriented approach and a broad range of investment strategies throughout the capital structure. Our senior investment team has extensive experience in equity capital markets and the natural resources sector in particular.

The purpose of this letter and our accompanying presentation is to explain why Rio Tinto's dual-listed companies ("**DLC**") structure has **proved to be an unmitigated failure for shareholders** and **requires urgent unification into a single Australian-domiciled holding company**.

**Based on our extensive analysis, we believe that this readily actionable step would resolve the value destructive inefficiencies of the outdated DLC structure and present a path to US$28 billion (27%) upside in the near term for PLC shareholders and further upside for the combined group over the medium term.**

So compelling is the case for unification that every other large cap public company with a DLC structure has already successfully unwound it, with overwhelming support from their directors and shareholders alike. This includes the highly comparable case of BHP, whose structural unwind was recommended by every single one of its directors and approved by 97% of its shareholders. Further still, BHP's independent expert, Grant Samuel & Associates Pty Limited ("**Grant Samuel**"), set out in detail the highly persuasive rationale to unify – much of which evidently also applies to its closest peer Rio Tinto: https://www.bhp.com/-/media/documents/investors/shareholder-information/2021/unification/3_circular.pdf.

Rather than refer to the damaging effects of this legacy structure in theoretical terms, we have quantified within this letter: 1) an estimated c.**US$35.6 billion** of additional book value unnecessarily lost from Rio Tinto's inability to execute stock-based M&A[1]; 2) an estimated c.**US$14.7 billion** value foregone through the structure's sub-optimal utilisation of franking credits[2]; and 3) the glaring **US$24 billion** structural value gap between the PLC and LTD shares today.[3]

[1] Since inception of Rio Tinto's DLC structure in 1995.
[2] Since inception of Rio Tinto's DLC structure in 1995.
[3] Source: Bloomberg as at 29 November 2024.

The 30 year period since inception of this structure – which has seen 6 chairmen, 7 chief executive officers, 5 chief financial officers, 71 directors, 60 members of the executive committee and multiple market cycles come and go – provides a more than reasonable reference period for our analysis:

- **Inability to execute stock-based M&A:** Rio Tinto's inability to share risks with targets has unnecessarily cost shareholders an estimated c.US$35.6 billion of additional book value so far. Whilst management asserts that the DLC structure is no hinderance to stock-based M&A, evidence overwhelmingly points to the contrary. Over the last 3 decades, Rio Tinto has been compelled to fund 100% of its acquisitions entirely with cash[4] instead of utilising an industry standard mix of cash and equity. Rio Tinto's approach to M&A is both an obvious statistical anomaly and entirely unsustainable going forward.

- **Franking credit inefficiency:** in a failure to achieve the DLC's own stated objective,[5] third-party analysis indicates that shareholders have monetised an estimated c.US$14.7 billion less franking credits compared to if Rio Tinto had been set up as a single Australian-domiciled holding company from the outset.

Today, Mr. Stausholm believes that Rio Tinto's PLC shares listed in the UK and LTD shares listed in Australia somehow offer the "*the best of two worlds*".[6] **With a gaping US$24 billion valuation gap between the two supposedly "equivalent" shares, we firmly disagree.**

Every day that this archaic structure remains in place, shareholder losses continue to mount. However, all of its structural deficiencies can be easily eradicated through the simple step of unifying Rio Tinto's PLC and LTD share capital into a single fungible ASX, LSE and NYSE (ADR) listed stock. As was the case when BHP unified, we firmly believe that the share price of a unified Rio Tinto would trade up to, and ultimately surpass, the current price of the LTD line. We note that since announcement and completion of its own unification, BHP's total shareholder return has consistently outperformed Rio Tinto's.[7]

**With an estimated c.US$50 billion of value already lost, we implore the Board to act swiftly to stop the clock on further value destruction for shareholders in the hands of a structure that is unfit for the corporate world of today.**

Management's unconvincing commentary in defence of the status quo falls woefully short of what is required to assure the market of the integrity of their recent cursory internal assessment. A few unsubstantiated sweeping statements to support their decision are simply not good enough to contradict the globally accepted view on the durability of DLCs. We dissect each of their conclusions in this letter, but highlight two particularly egregious claims:

**Claim 1: Unification would cost "*mid-single digit billions of dollars*"**[8]

- There is no accompanying detail to support the calculation of this figure. The market has understood the CFO's statement to mean there would be a lump-sum of billions of dollars of tax costs payable in cash upon unification. However, we estimate that **the one-off transaction costs should total c.US$400 million.**[9] Furthermore, our independent tax analysis reveals that management's figure consists primarily of **an estimated c.US$140 million of additional *annual* tax expenses that would be payable by a unified Rio Tinto** going forward.[10] Given what is at stake, a figure that represents a <2% increase in annual tax paid by Rio Tinto[11] and <0.6% of the group's annual EBITDA does not even come close to an acceptable reason to delay the inevitable.

[4] Excludes tender offers for minority shareholders in existing listed subsidiaries which included a cash or scrip alternative.
[5] Source: Rio Tinto's article "United for Growth" available on its website.
[6] Source: Page 9 of the Rio Tinto UK Analyst Q&A Conference Call, 31 July 2024 on Rio Tinto's website.
[7] Rio Tinto implied total shareholder return based on weighting of total shares outstanding across PLC and LTD.
[8] Source: Page 5 of the Rio Tinto UK Analyst Q&A Conference Call, 31 July 2024 on Rio Tinto's website.
[9] Net of advisory and administration costs.
[10] Assumes implementation of restructuring options available to mitigate any further tax leakage.
[11] Based on Rio Tinto's taxes paid for 2023, as set out in its Taxes and Royalties Paid Report 2023.

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**Claim 2: Getting the necessary shareholder support would "*be impossible*"**[12]

- This claim conflicts entirely with the **global opinion that DLC structures are no longer fit for purpose.** Shareholders of former DLCs have **almost unanimously** voted in favour of unification, indicating their unequivocal preference to replace its complicated and cumbersome features with a simplified conventional structure. In all but one case, **ISS and Glass Lewis recommended in favour of every single one of those unifications.**[13]

- With an average DLC shelf life of around 9 years,[14] their directors – **a cumulative 136+ of them** – did not take so long to decide that their company's long-term success is better promoted free from the shackles of this outdated structure and that an unwind should be put to a shareholder vote.

| | Shareholder Approval | |
|---|---|---|
| **DLC** | **Premium Line** | **Discount Line** |
| **ABB** | 97.20% | 98.0% |
| **Dexia** | 100% | 94.01% |
| **Nordea** | 100% | 95.90% |
| **Zurich** | n/a | 99.64% |
| **Fortis** | 100% | n/a |
| **Shell** | 97.40% | 96.30% |
| **Brambles** | 99.90% | 99.94% |
| **Thomson Reuters** | 99.56% | 97.34% |
| **RELX** | 99.99% | 99.99% |
| **Mondi** | 100% | 99.95% |
| **Unilever** | 99.45% | 99.39% |
| **BHP** | 97.61% | 96.12% |
| **Average** | **c.99%** | **c.98%** |

Management's vague and illogical statements – coupled with their reluctance to meaningfully engage with us on this topic – lead us to question whether there are more subjective motives at play in protecting the structural hierarchy of the UK entity.

For these reasons, we believe that **the only appropriate and logical next step for the Board is to instigate an independent, comprehensive and fully transparent review** into the rationale for maintaining a corporate structure that every other large cap company has long moved on from. **Your shareholders deserve nothing less**.

## The DLC Structure Has Destroyed US$50 Billion of Value for Shareholders

We have spent considerable time conducting extensive due diligence on Rio Tinto's DLC structure, enlisting the assistance of industry experts, financial advisors, lawyers, tax advisors and other stakeholders in the process. We believe that the value case for unification is best illustrated by an analysis of the value underperformance since Rio Tinto's DLC structure was incepted, as compared to if it was never there in the first place. Through this analysis, **we demonstrate that shareholders would**

[12] Source: Mr. Stausholm's interview with The Wall Street Journal on 30 July 2024 titled "Rio Tinto won't end dual listing after investor call to leave London".
[13] Since the formation of Glass Lewis in 2004, it voted in favour of each unification, save for Thomson Reuters because the Canadian corporate law requirements relating to executive pay that would apply post-unification were not as stringent as those in the UK.
[14] Excluding the Shell and Unilever anomalies or 23 years when including those two legacy DLCs.

**have been an estimated c.US$50 billion better off without the DLC structure**. We have identified its three key value destructive deficiencies:

1) ***Strategic Inhibitors***: the structural inefficiencies severely inhibit Rio Tinto's capital allocation options. In particular, the material price distortion between the shares of PLC and LTD makes it extremely difficult for Rio Tinto to execute any stock-based M&A. We estimate that its inability to offer an industry standard mix of cash and equity for its acquisitions has cost Rio Tinto's shareholders c.US$35.6 billion in additional book value since 1995**.** The obvious and pressing need to allocate capital for buy-backs of PLC shares is also challenged under the outdated structure, further impeding shareholder returns.

2) ***Inefficient utilisation of franking credits:*** an estimated US$14.7 billion less franking credits have been utilised under the DLC structure compared to if Rio Tinto had been set up as a conventional Australian holding company.[15] This is partly because Australian institutional and retail shareholders are significantly under-represented in Rio Tinto's shareholder base, despite the fact that the majority of the group's profits and cash flow are generated in Australia.

3) ***Unworkable corporate governance framework:*** the cumbersome and confusing elements of the DLC structure fail to meet present-day investor expectations, obfuscating shareholder protections on critical issues such as voting levels at AGMs. Directors' duties are also complicated when the interests of PLC and LTD diverge. Management time is wasted in running the business through two holding companies rather than one – with duplicated filings, headquarters, board meetings, shareholder meetings and further difficulties arising when the UK and Australian legal, accounting or tax rules conflict. As the list of sub-optimal governance features continues, Rio Tinto ends up a far less appealing investment proposition compared to its simpler DLC-free peers.

## The Irrefutable Benefits of Unification

The value case for unification is inextricably linked to the value underperformance resulting from the DLC structure so far. With the structural inefficiencies of the legacy structure eradicated through a simple unwind, a normalised structure would unlock multiple significant benefits for a more agile Rio Tinto:

- ***Capital Efficiency***: an immediate release of US$24 billion of unrealised value trapped inside the PLC/LTD share price differential, creating a single fungible instrument with a global share price. As was the case with BHP, we firmly believe that the share price of a unified Rio Tinto would trade up towards the LTD line, given that LTD's premium reflects the higher price its predominantly Australian investors are prepared to pay for the same earnings and dividend stream due to the franking credits attached.[16]

- ***Strategic flexibility***: an ability to optimise shareholder value with all capital allocation tools at management's disposal. Stock-based M&A would not only enable the required diversification of Rio Tinto's portfolio in an era characterised by intense competition amongst key mining industry players to secure scarce supply of metals critical to the energy transition, but also enable risk-sharing to avoid the unnecessary value destruction associated with over-priced cash-only acquisitions in a highly cyclical industry.

- ***Tax optimisation***: increased utilisation of Rio Tinto's substantial pool of franking credits by Australian shareholders, including a potential for Rio Tinto to crystallise a c.US$4bn in latent franking credit value[17] for shareholders with an enhanced capital return through a one-time franked special dividend.

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[15] Since inception of Rio Tinto's DLC structure in 1995.
[16] Our research indicates that the Australian shareholding in a unified LTD would continue to be >50%.
[17] FY2023 reported franking credit balance stands at >US$8.7 billion.

- ***Improved corporate governance regime:*** a simple and clear corporate governance structure, which complies with best-in-class ESG practices and finally places Rio Tinto on a level playing field with its DLC-free peers.

Past precedents demonstrate the clear benefits and multiple pathways to unification – the simplest being the tried and tested approach implemented by BHP of a one-for-one exchange of PLC shares for new LTD shares. Post-unification, all Rio Tinto shareholders would own shares in LTD, which would continue to be domiciled in Australia, with a primary listing on the ASX and ongoing LSE and NYSE (ADR) listings.

## Management's Reasons to Retain the Status Quo Do Not Stack Up

We have tried to engage constructively with management to share our perspectives, having met with the CFO or members of his team 5 times this year. During those meetings, it became obvious that they have a preference to retain the UK entity's structural hierarchy, regardless of the irrefutable arguments in favour of unifying into an Australian holding company. Mr. Stausholm's public statement that unification would be "***very, very difficult, particularly because we have no wish to leave Australia [SIC]***"[18] (we assume he meant to say the UK) heightened that concern.

We have carefully considered each of the reasons management provided to maintain the status quo and are disappointed to find that they have been crafted in generalised unclear terms that fail to stand up to scrutiny.

### 1) Opaque Calculation of Friction Costs

Mr. Cunningham's primary justification for rejecting unification is that it would cost *"mid-single digit billions of dollars*", but he does not provide any detail to support the calculation of this figure.

**To be clear, the independent tax analysis commissioned by us reveals there is no lump-sum payment of billions of dollars of tax due at unification. We estimate that the one-off transaction costs should total c.US$400 million.[19]**

Based on input from leading international tax and accounting experts, management's inflated friction costs primarily relate to an additional annual tax that would be payable in a unified structure because of the difference in controlled foreign company ("**CFC**") attribution rules between the UK and Australia.[20] To expand, Rio Tinto currently enjoys a tax saving resulting from PLC not attributing certain profits derived from its Singapore-based marketing operations. Post-unification, some of these profit streams would be attributable under Australian CFC rules – resulting in an estimated c.US$140 million per annum of incremental tax leakage for Rio Tinto.[21]

To put this figure into context, this tax increase represents a **<2% increase in annual tax paid by Rio Tinto and <0.6% of the group's annual EBITDA.**

Even if we calculate the net present value of this annual tax leakage – as Mr. Cunningham's team has evidently done – it would be c.US$1.4 billion, a substantially lower figure than the one shared with the market.[22]

**Through a careful choice of vague and unclear words, the market has ended up perceiving this annual tax cost to be a one-off cash expense payable upon unification.** Worse still, management

[18] Source: Mr. Stausholm's interview with The Wall Street Journal on 30 July 2024 titled "Rio Tinto won't end dual listing after investor call to leave London".
[19] Primarily consisting of UK stamp duty (c.US$334 million) and an Australian landholder duty related to Rio Tinto Alcan assets held by Plc (c.US$73 million). The figure is net of advisory and administration costs.
[20] Plus the one-off costs of unification, which we estimate to be c.US$400 million.
[21] Assumes implementation of restructuring options available to mitigate any further tax leakage.
[22] We also note that the ongoing restructuring of BHP's asset portfolio prior to unification resulted in CFC-related taxes for similar operations not even being counted as a unification cost.

has presented the figure in isolation, rather than as part of a transparent cost-benefit analysis. Based on our research, the historic value of this advantageous tax position in Singapore – an estimated cumulative total of c.US$3.2 billion since inception of the DLC structure[23] – is wholly eclipsed by the estimated cumulative c.US$50 billion of shareholder value destroyed under it.

**2) Inability to Pursue Scrip-Based M&A**

Mr. Stausholm claims Rio Tinto is able to pursue scrip-based M&A under the DLC structure,[24] even though there are serious practical difficulties around how to issue equity across two lines of stock that trade at such a persistent and significant price disparity. "*We can buy from the DLC, we can buy from the PLC, from the Limited. We can do a lot*"[25] – but can Rio Tinto do any of this in a manner which is fair and equitable to both PLC and LTD shareholders, as well as attractive to target shareholders?

The CEOs of other DLCs do not share Mr. Stausholm's confidence, consistently citing this constraint as a key reason for unification.[26] Independent experts, such as Grant Samuel, believe he is wrong.[27] Statistics tell an equally bleak story, with precedent DLCs funding **just 0.5%** of their acquisitions with stock.[28]

**Rio Tinto has funded 100% of its acquisitions entirely with cash since establishment of its DLC structure.**[29] Management have argued this is because stock-based M&A is rare in their industry, but with empirical and easily verifiable evidence that mid and large cap resources companies have offered a weighted average ratio of approximately 68% equity to 32% cash for acquisitions since inception of Rio Tinto's DLC structure – **we beg to differ**.

**3) Share Price: Overstated Flow Back Concerns**

Management and their advisors make a rudimentary guess, based on the relative size of PLC's shareholder base, that the share price of a unified Rio Tinto would trade "*down in a double-digit percent because you're putting 77% of the shareholders into the Limited structure*".[30]

Their repeated reliance on the fact that 77% of Rio Tinto's register is on the PLC side, as compared to 42% for BHP, is intended to somehow present a risk to unlocking the benefits of unification – however, we believe it is wholly irrelevant.

Although we acknowledge the likelihood of some flow back of PLC shares, principally from UK index funds selling their PLC holdings because of Rio Tinto's likely loss of FTSE UK inclusion, detailed register analysis from independent financial advisors indicates that **any expected flow back would be almost entirely offset by flow forward** from Australian index funds, superannuation funds and other Australian institutions. This flow forward would primarily result from a **>300% upweighting of Rio Tinto on the S&P/ASX indices upon unification**, which would be **>5x greater than that generated by BHP's unification**.

Management have also gone to great lengths to remind us how BHP's share price traded down on the first day following its unification announcement. However, we believe the true measure of relevance here is the share price performance up to the conclusion of unification and beyond – not the isolated

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[23] Calculated by our independent tax advisors from 2005-2023, as the Singapore subsidiaries were not material prior to 2005. These tax savings have reduced substantially in any case with Rio Tinto paying tax at the Singapore corporate tax rate (17%) from 1 January 2024, coinciding with the introduction of the new Pillar Two 15 % global minimum tax.
[24] Source: Mr. Stausholm's interview with The Wall Street Journal on 30 July 2024 titled "Rio Tinto won't end dual listing after investor call to leave London".
[25] Source: Page 3 of the Rio Tinto 2024 Half Year Results Sydney Q&A, 31st July 2024 on Rio Tinto's website.
[26] The CEO of BHP, Mr. Mike Henry, particularly celebrated how unification has "*made it more practical for BHP to pursue scrip-based acquisitions as we are now doing with our proposal for Anglo American*" at the Bank of America Global Metals, Mining and Steel Conference, 14th May 2024.
[27] Source: Page 194-195 and 214-215 of the BHP Shareholder Circular dated 8 December 2021.
[28] Source: Independent study conducted by FTI Consulting, in the context of the BHP unification dated February 2018. Study period is from 1995-2018.
[29] Excludes tender offers for minority shareholders in existing listed subsidiaries which included a cash or scrip alternative.
[30] Source: Page 8 of the Rio Tinto UK Analyst Q&A Conference Call, 31 July 2024 on Rio Tinto's website.

events of one single day. **Neither temporary price movements from flow effects nor trading patterns over one anomalous day justify leaving Rio Tinto's severe structural value gap unresolved indefinitely.**

### 4) Franking Credit Utilisation

Mr. Cunningham obfuscates the franking credit benefits of unification with a throw-away remark that Australian derived profits may be insufficient in future for shareholders to enjoy fully franked dividends.[31] We see no cause for concern based on current data, as both today and for more than a decade, 100% of Rio Tinto's dividends have been fully franked without fail.

In any event, we believe that the critical measure of "franking credit efficiency" is the total quantum of franked dividends that are utilised by Australian shareholders. As noted earlier, an estimated c.US$14.7 billion more franking credits would have been utilised to date if Rio Tinto had not bothered with the DLC structure in the first place – demonstrating that unification delivers a far more franking credit efficient structure.

### 5) Precedents Show Overwhelming Shareholder Support

Mr. Stausholm predicts that it would be **impossible** to obtain the shareholder votes required to approve unification, even though management told us that they have not canvassed investor views directly on this topic. Contrary to what Mr. Stausholm may think, shareholders have consistently expressed an overwhelming preference for a simplified structure, **voting almost unanimously in favour** of the unification of former DLCs.

Shareholder support for the unification of major corporates such as Shell and Unilever reached 97% and 99%, respectively. Shareholders of Brambles, another UK/Australia DLC, approved its unwind by 100%. Looking at the most comparable case of BHP, 97% of its shareholders voted in favour of its unification, many of whom are also shareholders in Rio Tinto. Even though BHP's Australian line traded at a premium of 15%-20% at the time, the investors in that company were still convinced (98%) that unification into a single company was more valuable to them than two asymmetrical parts.

## Summary and Next Steps

### Summary

Whilst Mr. Stausholm's team may "*not wish to leave*" the UK – we ask what purpose is really served by preserving the structural hierarchy of PLC, when PLC cannot support its own dividend payments; <1% of Rio Tinto's employees are based in the UK; <20% of the EBITDA of the combined group is generated by PLC and PLC trades at such an extreme discount to LTD.

Management argues that unification would destroy value but, when pressed, admits that they cannot quantify by how much. On the other hand, we have been able to calculate the financial damage caused to shareholders as a direct result of the legacy structure. We have estimated the c.US$35.6 billion of losses from Rio Tinto's inability to execute stock-based M&A, the c.US$14.7 billion value foregone through the DLC's sub-optimal franking credit utilisation, and spotlighted the glaring US$24 billion structural value gap between the PLC and LTD share prices today. Looking forward, we have calculated how unification has the potential to unlock US$28 billion of value for shareholders.

Mr. Stausholm concludes it is "*nearly impossible for us, for our fiduciary responsibility to recommend [unification]*"[32] primarily because of a <2% increase in annual taxes post-unification. We believe it is **nearly impossible for you – the directors of Rio Tinto – to ignore your fiduciary responsibility to recommend unification** and eradicate the structural constraints that hamper your ability to maximise long-term value for shareholders.

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[31] Source: Page 8 of the Rio Tinto UK Analyst Q&A Conference Call, 31 July 2024 on Rio Tinto's website.
[32] Source: Page 9 of the Rio Tinto UK Analyst Q&A Conference Call, 31 July 2024 on Rio Tinto's website.

It cannot be that the >136 directors of almost every other DLC in the world, who decided that their structure was no longer viable, were wrong. It cannot be that independent experts, like Grant Samuel, who supported the unification of Brambles and BHP, were wrong. It cannot be that leading international proxy advisors, who consistently recommended in favour of unification in those prior cases, were wrong. It cannot be that the shareholders of those former DLCs who voted almost unanimously in favour of an unwind were all wrong.

**Next steps**

After reading this letter, we hope you will agree that your shareholders deserve so much more than a closed-door superficial assessment of such an important matter. With findings that are full of glaring holes and fail to consider issues as critical as corporate governance, Rio Tinto must do better by its shareholders.

Therefore, we call upon the Board to immediately instigate an independent, comprehensive and fully transparent review on whether unification of Rio Tinto's DLC structure is in the best interests of its shareholders, through the following process:

1) **Establishing a committee to conduct that review – consisting of 3-4 of the most newly appointed independent directors with no personal connection to the UK, conflicts or historical biases, as well as an external shareholder representative.** We would be delighted to serve as the external shareholder representative given our experience with and extensive work on this matter.

2) **The committee commissions an independent expert report[33] from a leading international firm such as Grant Samuel,[34] who are proficient on the relevant issues, to opine on whether unification would be in the best interests of Rio Tinto's shareholders.** The report should cover each of the topics addressed in our materials, as a fair and reasonable way to reconcile our diverging views on these issues.

3) **The committee provides the market with a detailed report of its findings, along with the full independent expert report and other material information it has relied upon.[35]**

With the above in mind, we are sharing this letter and our related materials publicly at [www.UnifyRio.com](http://www.UnifyRio.com). We ask that all information Mr. Stausholm's team have relied on in forming their views is also shared with the market as soon as possible.

Every day that this outdated DLC structure remains in place serves only to exacerbate shareholder losses. Therefore, we would be grateful for a response to our request by 18 December 2024.

We greatly appreciate your time and consideration of our views on a matter of such critical importance to Rio Tinto and all of its stakeholders.

Yours faithfully

For and on behalf of
**Palliser Capital (UK) Limited**

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By: James Smith, Chief Investment Officer

[33] From a firm that does not provide services to Rio Tinto.
[34] To the extent that they are not conflicted.
[35] Which can reasonably be disclosed to the public, if it constitutes non-public information.

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