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UK capital gains tax information for shareholders

THIS LEAFLET APPLIES TO DISPOSALS ON OR AFTER 6 APRIL 2008.

Capital gains tax is a complex area. The following notes are intended to be for guidance only and you should seek independent professional advice if you are in any doubt as to your obligations. Further commentary can also be obtained from the HM Revenue & Customs website: www.hmrc.gov.uk.

The capital gains tax implications for Rio Tinto shareholders depend on the precise circumstances that apply in each case. It is not therefore possible to give individual advice to shareholders who are subject to UK tax in respect of chargeable gains.

The purpose of this leaflet is to provide guidance on the UK capital gains tax implications for individual Rio Tinto shareholders. However, Rio Tinto will not be responsible for any tax implications arising from Rio Tinto shareholders acting on the information contained within this leaflet.

The information provided in this leaflet is not a complete summary of the rules and shareholders who may be liable to capital gains tax or remain uncertain of their tax position are advised to consult their financial advisor.

General UK capital gains tax information for share disposals on or after 6 April 2008

Generally, shareholders who are resident and domiciled in the UK for tax purposes are subject to capital gains tax in the year of disposal of a share.

Individuals who are non-UK domiciled may need to seek advice in respect of the remittance rules and the interaction of these with the capital gains tax rules.

UK resident individuals who acquire assets and then leave the UK for a period of tax residence abroad of less than five complete tax years remain chargeable to capital gains tax. Where a capital gain arises during this temporary period of non residence, the disposal will be deemed to have been made in the year of their repatriation to the UK and capital gains tax may be due in that tax year.

Capital gain or loss
When shares are sold a chargeable gain or loss may arise. The chargeable gain or loss is calculated by deducting the **cost** of the shares which have been sold from the proceeds from the sale of the shares. Capital losses may be utilised in the current year or carried forward to offset future capital gains.

Capital gains arecharged to tax at 18% for basic rate taxpayers and 28% for higher and additional rate taxpayers. Taper relief and Indexation Allowance do not apply to disposals on or after 6 April 2008.

In determining the cost of the shares which have been sold, there are share identification rules which have been outlined below.

Proceeds
This is the amount that you receive from the disposal of the shares after deducting expenses associated with the disposal. Such expenses include commissions and fees charged by your broker.

IDENTIFICATION RULES/SHARE POOLING

To calculate the capital gain, you need to match the shares disposed of with particular share acquisitions.

All shares in the same class in the same company will be treated as forming a single asset ("a share pool"), regardless of when the shares were acquired.

For example, if you acquired 1,000 shares in Rio Tinto in March 2003 for £12,000 and then a further 500 shares in March 2005 for £27,000, you will be treated as holding 1,500 shares with a cost of £39,000. If you dispose of say 250 of these shares, the total cost of those shares will be calculated as 250/1500 X £39,000 = £6,500.

Shares are deemed to be disposed of in the following order;

i) Same day acquisitions.
ii) Acquisitions within the following 30 days
iii) Any shares in the share pool.

Cost for pooling purposes
Shares purchased after 31 March 1982 will be included in the share pool based on the purchase price of the shares.

Shares purchased prior to 31 March 1982, will be included in the share pool with a cost based on the market value of the shares as at 31 March 1982.

Note for current or former employee shareholders who acquired shares through an employee share plan

The cost of shares acquired by current or former employee shareholders through an employee share plan is the amount that was liable to UK income tax at the date of award, if any.

The cost of shares acquired through the exercise of UK approved share options is the grant price ("exercise price") of the option.

Rights issues
A rights issue is normally treated in the same way as purchased shares.

Scrip dividends/Dividend Reinvestment Plan
Scrip dividends are dividends paid in the form of shares. The cash dividend foregone (the "cash equivalent" of each new share), or in some circumstances, the market value of the scrip shares on the first day of dealings in the shares, forms the basis of the value of the scrip dividend for income tax purposes. An equivalent amount is treated as the cost used for share pooling purposes when determining the capital gains tax implications upon sale of the shares.

For shares acquired via the Rio Tinto dividend reinvestment plan, the cost for pooling purposes is the price that the shares were acquired for.

Annual exemption
Each individual may make capital gains up to the annual exempt amount for each tax year free of capital gains tax. The annual exemption for the 2012/13 and 2013/14 tax years is £10,600 and £10,900 respectively.

This exemption is available to UK, EEA national and Commonwealth citizens.

Personal Equity Plans (PEPs)/Individual Savings Accounts (ISAs)
ISAs replaced PEPs with effect from 6 April 1999. PEPs in existence at this date may continue.

Gains realised on the disposal of shares acquired by individuals through a PEP or an ISA are normally exempt from capital gains tax.

Further information
HMRC Helpsheet “HS284” provides further guidance on how to capital gains tax on the disposal of shares. HMRC publications can be found on: www.hmrc.gov.uk.