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UK capital gains tax information for shareholders

PLEASE NOTE THAT FOLLOWING LEAFLET APPLIES TO DISPOSALS BEFORE 6 APRIL 2008. FOR DISPOSALS ON OR AFTER 6 APRIL 2008, THERE IS ANOTHER LEAFLET YOU SHOULD REFER TO.

Capital gains tax is a complex area and the law has changed significantly. The following notes are intended to be for guidance only and you are advised to seek external professional advice for any further technical advice or planning in this area. Further advice can also be obtained from the Inland Revenue website reference: 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 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.

This leaflet is directed at shareholders who are individuals

General UK capital gains tax information for share disposals before 6 April 2008

The following notes is intended to be for guidance only and you are advised to seek independent professional advice for any further technical advice or planning in this area.

Further information can also be obtained from the HMRC website reference: www.hmrc.gov.uk/cgt/index.htm

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

Individuals who have acquired assets before they leave the UK for a period of tax residence abroad of less than five complete tax years will remain chargeable to UK capital gains tax. They will be liable to tax in the year of their repatriation to the UK on gains made on disposing of those assets while abroad.

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 base 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.

Disposals before 6 April 2008
For disposals before 6 April 2008, a capital gain is taxed at an individual's marginal tax rate after applying taper relief. The tapering relief reduces the percentage of gain chargeable to tax based on whether the asset is a business asset and the number of complete years for which the asset have been held. The taper relief rules are set out below.

Base cost
For shares purchased after 31 March 1982 the base cost of the shares will normally be the purchase price of the shares. For shares purchased prior to 31 March 1982 the base cost will normally be the market value of the shares as at 31 March 1982.

Appendix I gives a history of events between 31 March 1982 and 5 April 1998 which may need to be taken into account in arriving at the base cost of Rio Tinto shares which were acquired before 31 March, 1982 and are still held.

Appendix II provides adjusted 31 March 1982 values.

Please note that for those shareholders who have been or who are currently employees of the Company and who have acquired shares through an employee share scheme, the base cost of these shares for capital gains tax purposes will be the amount that was liable to UK income tax, if any. Otherwise the base cost will be as detailed above.

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

Identification rules/Pooling
Share identification rules apply to disposals on or after 6 April 1998. These determine how long shares sold have been held when the disposal is made out of a composite holding acquired at different date
In working out the capital gain, you will need to match the shares disposed of with the shares that you have acquired.

For shares acquired prior to 6 April 1998, which are still held, it may be necessary to apply the pooling rules.

These treat shares of the same class held by the same person in the same capacity as a single asset which grows and diminishes as purchases and sales of shares are made. When there is a partial sale of a shareholding, the relevant proportion of the pooled base cost plus indexation allowance is deducted from the proceeds.

Existing share pools are frozen at 5 April 1998. Shares acquired on or after 6 April 1998 will cease to be pooled.

Disposals of shares acquired after 5 April will be identified with acquisitions in the following order. These share identification rules determine which shares you are considered to have disposed of, the period the shares been held and the applicable taper relief:

i) Same day acquisitions.
ii) Acquisitions within the following 30 days.
iii) Previous acquisitions after 5 April 1998, identifying the most recent acquisition first.
iv) Shares pooled at 5 April 1998.
v) Shares held at 5 April 1982.
vi) Shares acquired before 6 April 1965.

If the above rules fail to exhaust the shares disposed of, the remaining shares are matched with later acquisitions, taking the earliest one first.

Indexation/Tapering relief
The base cost of shares acquired prior to 6 April 1998 may be increased by an indexation allowance. The indexation allowance is computed by reference to the movement in the retail price index between the month the shares were purchased (or, normally, March 1982 in the case of shares purchased prior to that date) and April 1998. Generally, indexation allowance cannot be used to create capital losses for disposals after 30 November 1993.

From 5 April 1998, indexation was replaced by taper relief, which exempts a percentage of any gain based on the number of years for which the asset is held.

The percentage of the taper relief is dependent on whether the shareholdings are considered business assets or non-business assets.

For shareholdings which do not qualify as business assets, the proportion of the gain chargeable to tax is found as follows:-

INDIVIDUALS – GAINS ON NON-BUSINESS ASSETS

Number of complete years after 5 April 1998 for which asset held	Percentage of gain chargeable
0-2	100
3	95
4	90
5	85
6	80
7	75
8	70
9	65
10 or more	60

More generous taper relief applies to shares which qualify as "business assets". The definition of business assets is complex but in summary includes certain shares held by reason of employment, certain shares in unlisted companies and certain shares in listed companies which satisfy a 5% ownership threshold. Therefore, Rio Tinto individuals who are currently employees, or who have been in the past, may be eligible for business asset taper relief.

Individuals – Gains on business assets

Number of complete years after 5 April 1998 for which asset held	Percentage of gain chargeable
0	100
1	50
2 or more	25

Notes

i) Assets acquired before 17 March 1998 qualify for an addition of one year to the period for which they are treated as held after 5 April 1998.
ii) The taper will be applied to the net gains that are chargeable after deduction of losses of the same tax year and any brought forward losses. The annual exempt amount is then deducted from the tapered gains.
iii) For transfers between spouses, the taper relief on a subsequent disposal will be based on the combined period of holding by both spouses
iv) Taper relief and Indexation allowance is not available for disposals on or after 6 April 2008.

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 acquisition cost for capital gains tax.

For shares acquired via the Rio Tinto dividend reinvestment plan, the cost of the shares represents the acquisition cost for capital gains tax purposes.

Annual exemption
Each individual may make capital gains up to the annual exemption for each tax year free of capital gains tax. The annual exemption for the tax years 2007/08 and 2008/09 is £9,200 and £9,600 respectively. This exemption is available to UK, EEA nationals 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 leaflet CGT1 provides a general guide to capital gains tax. HMRC publications can be found on: www.hmrc.gov.uk

APPENDIX I

Adjusted market values at 31 March, 1982
For capital gains tax purposes the market values at 31 March, 1982 were:-

Ordinary shares	- 402p (25p, registered)
	- 404p (25p, bearer)
9½% convertible unsecured loan stock 1995/2000	- 94p

These values may need to be adjusted for the following events post 31 March, 1982.
(Note bearer shares did not rank for scrip dividend alternatives other than enhanced scrip dividends in 1993/94).

1983/84 Rights offer of 1 for 6 at 450p per share. June 1983.

1987/88 Share split and consolidation resulting in members holding 5 ordinary shares of 10p each in place of 2 existing shares of 25p each on 22 October, 1987.

1988/89 Scrip dividend option of 1 for 102 as alternative to cash dividend of 4.25p net per share. December 1988. Cash equivalent 433.5p per new share.

1989/90 Scrip dividend option of 1 for 50 as alternative to cash dividend of 10.75p net per share. July 1989. Cash equivalent 531p per new share.

Rights offer of 1 for 7 at 435p per share. July 1989.

Scrip dividend option of 1 for 113 as alternative to cash dividend of 5p net per share. December 1989. Cash equivalent 565p per new share.

1990/91 Scrip dividend option of 1 for 40 as alternative to cash dividend of 13.5p net per share. July 1990. Cash equivalent 532p per new share.

Scrip dividend option of 1 for 68 as alternative to cash dividend of 6p net per share. December 1990. Cash equivalent 403p per new share.

1991/92 Scrip dividend option of 1 for 42 as alternative to cash dividend of 13.5p net per share. July 1991. Cash equivalent 564.7p per new share.

Scrip dividend option of 1 for 91 as alternative to cash dividend of 6p net per share. December 1991. Cash equivalent 542.1p per new share.

1992/93 Scrip dividend option of 1 for 42 as alternative to cash dividend of 13.5p net per share. July 1992. Cash equivalent 554.5p per new share.

Scrip dividend option of 1 for 105 as alternative to cash dividend of 6p net per share. December 1992. Cash equivalent 628.1p per new share.

1993/94 Enhanced scrip dividend option of 1 for 30 as alternative to cash dividend of 13.5p net per share. May 1993. Market value on first day of dealings 632.75p per new share.

Enhanced scrip dividend option of 1 for 33 as alternative to cash dividend of 13.5p net per share. August 1993. Market value on first day of dealings 672.75p per new share.

1994/95 Scrip dividend option of 1 for 122 as alternative to cash dividend of 7p net per share. July 1994. Cash equivalent 855.5p per new share.

1995/96 Scrip dividend option of 1 for 111 as alternative to cash dividend of 7p net per share. July 1995. Cash equivalent 779.9p per new share.

1996/97 Scrip dividend option of 1 for 114 as alternative to cash dividend of 8p net per share. April 1996. Cash equivalent 911.5p per new share.

1997/98 Scrip dividend option of 1 for 120 as alternative to cash dividend of 8p net per share. April 1997. Cash equivalent 960.0p per new share.

APPENDIX II

Adjusted market value of ordinary shares at 31 March 1982 (pence per share - to the nearest penny).

	Registered	without indexation	indexation to April 1998	including indexation
1.	Adjusted only for the rights issues in 1983 and 1989 and the share split and consolidation in 1987	197	170	367
2.	As 1), but also adjusted for the two Enhanced Scrip Dividends in 1993.	225	165	390
3.	As 2), but also adjusted for All Scrip Dividends.	285	156	441
	Bearer			
4.	Adjusted only for the rights issues in 1983 and 1989 and the share split and consolidation in 1987.	198	170	368
5.	As 4), but also adjusted for the two Enhanced Scrip Dividends in 1993.	226	165	391

NOTE: The above values are rounded to take into account different sizes of shareholding. Precise calculations for individual shareholdings may give slightly different values.