

# Rio Tinto Limited (RIO): Off-market share buy-back

## Transaction Summary

- **Buy-back components**

Buy-back price per RIO share	\$69.69	A
Capital component of buy-back price	\$9.44	B
Fully franked dividend component of buy-back price	\$60.25	C
Market price per RIO share	\$77.80	D
Excess tax value component per RIO share (non-cash)	\$8.11	$E = D - A$
Deemed capital proceeds per RIO share	\$17.55	B + E

- **Cash received in CMA** – \$69.69 per **RIO** share bought back
- **Non cash amount** – \$8.11 excess tax value component per RIO share bought back
- **Record date** – 25 September 2018
- **Buy-back date** – 12 November 2018
- **Payment date** – 19 November 2018

## What was the structure of an initial investment in RIO?

An initial investment in RIO represented an investment in fully paid ordinary shares in RIO.

## What was the RIO offer to its shareholders?

On 20 September 2018, RIO proposed to buy-back approximately \$2.87 billion of RIO shares through an off-market share buy-back. As part of the offer, eligible shareholders were invited to tender some or all of their shares for buy-back at a discount to the market price of between 8% and 14% inclusive (at 1% intervals), or at a final tender price.

*Source: Rio Tinto Limited Off-market buy-back tender booklet, dated September 2018.*

## What was the final buy-back price?

The final price for the buy-back was set at \$69.69 per RIO share bought back.

## Which tenders were successful?

Tenders at a 14% discount or at a final tender price were successful. Tenders at a discount of less than 14% were not accepted.

## **How many shares were successfully bought back?**

### *Tenders up to 70 RIO shares*

A priority allocation of 70 RIO shares (the priority allocation) were bought back from eligible shareholders before any scaleback was applied. If the shareholders' tendered shares were equal to or less than the priority allocation at the buy-back discount, then all of those shares were accepted for purchase.

### *Tenders of over 70 RIO shares*

A scaleback of tenders of 58.27% was applied to tenders in excess of the priority allocation.

### *Small holding tenders (shareholders with a residual holding of 30 RIO shares)*

Where shareholders were left with a residual holding of 30 RIO shares or less after the priority allocation and scaleback were applied, all of their shares were accepted for purchase under the small holding tender.

## **What was the implementation date and the payment date of the off-market share buy-back?**

The implementation date for the buy-back (the date the RIO shares were disposed of for tax purposes) was 12 November 2018.

The payment date for the buy-back was 19 November 2018.

## **What are the tax components of the \$69.69 buy-back cash payment to RIO shareholders?**

The final buy-back price of \$69.69 per RIO share included:

- a fully franked dividend component of \$60.25 per RIO share bought back, and
- a capital component of \$9.44 per RIO share bought back.

## **How will the dividend component of the buy-back payment be treated for tax purposes for shareholders?**

The dividend component of the buy-back payment, along with any attached franking credits, should be included in the assessable income of a resident shareholder.

The dividend component was equal to \$60.25 per RIO share bought back and the dividend component was fully franked.

## **How will the capital component of the buy-back payment be treated for tax purposes for shareholders?**

The capital proceeds were deemed to be \$17.55 for each RIO share bought back. This includes the capital component of \$9.44 cash and the excess tax value of \$8.11 for each RIO share bought back (see below for further information on the deemed capital proceeds and excess tax value).

A RIO shareholder will make a capital gain or loss on disposal of the RIO shares equal to the difference between the deemed capital proceeds of \$17.55 per share and the cost base of the RIO shares.

Any capital gain may be reduced by the applicable CGT discount percentage where certain conditions are satisfied. For Australian resident individuals and trusts, the discount is 50%. For superannuation funds, the discount is 33 1/3%.

### **What are the deemed capital proceeds?**

For tax purposes, the deemed capital proceeds of a buy-back must be calculated where the purchase price is less than the market value of the share at the time of the buy-back.

The shareholder is taken to have received, in respect of the shares bought back, an amount equal to the difference between the market value of the shares and the buy-back price. This difference is the 'excess tax value'.

For the purposes of the RIO off-market share buy-back, this is outlined as follows:

- Market value - \$77.80 per RIO share bought back.
- Purchase price - \$69.69 per RIO share bought back.
- Excess tax value - \$8.11(\$77.80 - \$69.69).

For tax purposes, the excess tax value of \$8.11 must be added to the \$9.44 capital component to form the capital proceeds of \$17.55 per RIO share bought back.

In other words, Capital Proceeds (\$17.55) = Tax Value (\$77.80) – Buyback Price (\$69.69) + Capital Component (Cash) (\$9.44)

*Please note, the excess tax value of \$8.11 is a deemed amount for tax purposes only and was not paid to shareholders in cash.*

### **Has the ATO issued any rulings relating to the off-market share buy-back?**

On 12 December 2018, the ATO issued Class Ruling [CR 2018/57](#) Rio Tinto Limited: Off-market share buy-back.

### **How has the off-market share buy-back been reported by us?**

#### *Dividend component*

We have reported a fully franked dividend on 19 November 2018 (the payment date) for the amount of \$60.25 per RIO share bought back.

#### *Capital component*

We have reported a disposal of the relevant RIO shares bought back on 12 November 2018 the implementation date of the buy-back. The capital proceeds were \$17.55 per RIO share bought back.

Any resulting capital gain or capital loss was reported in a shareholder's Realised Gains Report.