



MEDIA RELEASE

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Chairman's Address Annual General Meeting 16 April 2010

2009 was indeed a remarkable year.

- Firstly, an historic long term port access agreement was reached for the Port of Newcastle, which we believe will help resolve the capacity constraints of the past.
- Secondly, coal was centre stage of a very public climate change debate. The federal government sought to make law its Carbon Pollution Reduction Scheme; while the world looked for an international solution from the December Copenhagen talks. Neither was successful.
- And thirdly, in 2009 demand fluctuated from our traditional customers as a result of the global financial crisis. A more positive market for thermal and semi soft coking coal was restored in the second half, and now augers well for 2010.

Coal & Allied is optimistic about the future. We have expansion options at all three of our Hunter Valley operations either under consideration or going through government approval processes.

We are updating our 2007/08 engineering feasibility study on the Mount Pleasant thermal coal project, as we expect to secure long term take or pay contracts with Port Waratah Coal Services for Mount Pleasant. This provides us with improved certainty to press ahead with work towards this project.

Our balance sheet remains strong – we have divested assets that were not core to our business – and we remain committed to growing our business.

After a cautious year in 2009, 2010 has many positive signs ahead.

I will discuss these shortly – but first I would like to present Coal & Allied's results for 2009 – our second strongest financial result to date.

Coal & Allied's net profit after tax was \$586 million in 2009; compared with \$804 million in 2008, which was a result of that year's record prices.

2009 was a very strong result, especially given last year's challenges. It is still more than double our next highest financial result, which was \$290 million in 2005.

Production in 2009 was in line with our port allocation, and was comparable with 2008 levels.

Coal & Allied benefits from higher US dollar prices. Underlying US dollar prices were lower, but these were offset by a weaker average Aussie dollar during 2009 compared with 2008.

Production costs were higher due to increased stripping ratios and workload. In 2009 we bought and hired more mobile equipment to move higher levels of overburden – in turn this required an increased employee, contractor, fuel, explosives and maintenance spend.

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Ordinary shareholders received a final fully franked dividend of three dollars and fifty cents per ordinary share, making a total dividend of five dollars and ten cents for the year.

To safety now – and in 2009 Coal & Allied's operations recorded an all injury frequency rate of 2.9 per million man hours worked, which is consistent with our safety performance in 2008.

The severity of injuries sustained decreased, and we recorded two significant safety achievements: Hunter Valley Operations came first, and Bengalla came second, in the open cut mines rescue competition held in November in New South Wales.

Coal & Allied also scored a notable environmental achievement in 2009: the Hunter Business Chamber's 2009 Environmental Sustainability Award, which recognises many initiatives at each of our sites.

Coal & Allied is proactively managing impacts such as greenhouse gas emissions, our energy use, our water use, and our impact on local communities.

We also look for ways to help build sustainability in the region by supporting local business, vocational learning, personal development and environmental outcomes.

In 2009 the Coal & Allied Community Development Fund, now in its eleventh year, invested more than \$1.2 million to deliver 14 community partnerships. It has also committed an additional \$1.3 million over the next three years to projects that will further build long term sustainability in the Hunter.

The Coal & Allied Aboriginal Development Consultative Committee, now in its fourth year, invested more than \$420,000 in 2009 to deliver 14 community partnerships.

Meanwhile, our Newcastle Knights Community Alliance has touched more than 25,000 people in Newcastle and the Hunter through health/wellness activities, sports training, indigenous student mentoring programmes and environmental projects.

One of the biggest challenges facing the coal industry is climate change.

2009 was a watershed year for this issue.

The Australian coal industry negotiated with federal government and opposition on policy. Australia sought international alignment through the Copenhagen talks.

Yet 2009 ended with no solutions from Copenhagen; no international alignment; and policy uncertainty.

However; this uncertainty does not change what we are already doing at Coal & Allied in preparation for ongoing emission reductions.

Last year we set up systems to incorporate routine reporting of new Australian legislation for energy and greenhouse gas emissions.

Coal & Allied is already an efficient business in terms of its energy use and emissions. We have energy efficiency programmes and emission reduction initiatives across our operations. We're achieving reductions in the scale of tens of thousands of tonnes, with new programmes each year that build on these results.

We also contribute to projects supporting the research, development and deployment of low emission technologies including the voluntary contribution of funds to the Coal21 Levy.

However, broader questions remain that are at the heart of coal's long term future:

- How quickly will carbon capture and storage be available? And
- What will it cost?

The challenge is to achieve real reductions in emissions, while not creating unintended consequences on the economy and the social environment.

Energy plays a key role in society. It is a commodity that benefits us all. It contributes to the alleviation of poverty; to improved health; and to a better quality of life.

Access to cheap, reliable energy underpins these needs. Coal is abundant and affordable. Coal underpins this state's growth. It is also the state's single biggest export revenue earner.

Carbon capture and storage remains a key strategic way to address climate change challenges and reduce future greenhouse gases.

We also need to achieve immediate emission reductions. We believe our coal seam gas trial at Mount Thorley Warkworth has considerable potential to do this.

Coal seam gas is a natural gas that is released from coal as it is mined. It accounts for almost 70 per cent of greenhouse gas emissions at Coal & Allied sites. It is 21 times more potent as a greenhouse gas than carbon dioxide.

Mount Thorley Warkworth emits about one million tonnes of carbon dioxide equivalent emissions each year. This trial could save up to 400,000 tonnes per year by flaring the gas extracted from the coal beds prior to mining.

An in-situ gas reservoir model has been designed and four production wells built at the site. Testing is underway to flare the gas from two wells, ahead of a full trial of all four.

This year we will extend the programme to Bengalla and Hunter Valley Operations. Twenty-seven bore holes will be drilled to collect data on coal seam gas content and composition at these sites. Drilling should be complete in mid-2011; and studies to construct in-situ gas reservoir models for these sites could be complete by December 2011.

After this work a decision could be taken on proceeding to flaring trials.

Clearly, if the gas is available in sufficient quantities and flows freely, it could even open up a new source of fuel to generate electricity.

So, while Coal & Allied has been participating in these immediate and continuing activities to reduce our emissions, we have also been participating in continuing activity to resolve coal chain constraints.

It's extremely pleasing that an efficient port access system is now well and truly on the horizon.

For years, Coal & Allied has been hamstrung by coal chain constraints. The long term framework struck in 2009 for capacity access at the Port of Newcastle is a major breakthrough, as it provides certainty to underpin port expansion; and certainty for coal producers to plan ahead.

It will allow us to aggressively consider project developments such as Mount Pleasant, and expansions at our existing sites.

We have begun to update our 2007/08 engineering feasibility study into Mount Pleasant. We expect to spend five or six million dollars this year updating this study and looking for opportunities to lower the overall capital cost and/or look at a variety of potentially different start-up options and mine plan sequencing to optimise the overall project.

We anticipate being able to secure long term take or pay contracts with PWCS in the near future, and we are working to obtain the remaining consents and approvals required to progress the development plan of Mount Pleasant, ahead of a decision to build.

Meanwhile, for our existing operations, we have entered into long term take or pay contracts for port allocation with PWCS. We're also negotiating similar long term take or pay contracts to secure equivalent rail track access and rail freight.

Last year PWCS completed an expansion to 113 million tonnes. Three months ago it announced a \$670 million expansion for its Kooragang Island Terminal, to add a further 20 million tonnes to PWCS' nameplate capacity.

In total, around \$5 billion in new infrastructure in port and rail is planned over the next four years at Newcastle to help increase coal export capacity.

This historic agreement is critical for the industry to move forward and realise growth opportunities. It will help enable infrastructure capacity to be built to meet demand.

Our long term aims for growth have never changed. We were poised for growth in early 2008, before the global markets crumbled.

In addition to opportunities to increase mine production to match fixed plant capacity at our existing sites, we have numerous additional opportunities that we are already progressing:

- At **HVO South** – state government project approval was granted in 2009 to recover up to 84 million tonnes of additional coal, at a rate of 16 million tonnes per annum ROM coal and continue mining for 21 years
- At **HVO Carrington** – we have lodged an application to extend the Carrington West Pit to access additional 17 million tonnes in-situ coal over five years
- At **Warkworth extension** – we are working on our application to extend mining within our existing lease and add a further 21 years operation to the mine
- At **Bengalla** – feasibility study underway to expand from 7.8 million tonnes per annum ROM to 10.7 million tonnes per annum ROM as per current consent limit.

Coal & Allied is, however, mindful of the issues that growth in mining will have in the Hunter Valley region.

Land use conflict in the region is already evident – but there are many examples around the world where mining, agriculture and other land users can successfully co-exist.

This conflict is not new – but it is real.

I mentioned earlier the climate change challenge – of addressing real reductions in emissions, while not creating unintended consequences on the economy and the social environment, which both depend on energy.

The same applies to land use conflict.

The land use challenge clearly raises the need for greater stakeholder engagement to introduce new or improved land use management approaches. All land users have needs that need to be addressed.

In mining, one of these needs is for consistency in the planning approval process for major projects.

Coal & Allied is keen to be involved in a process that achieves more constructive land use outcomes.

We would like to work with the state government on a regional strategy that would provide necessary certainty for our business; and allow companies such as ours to integrate their activities into a broader, coordinated regional approach. A regulatory framework around approvals is also central to this.

Coordinated planning would help map out the future population, service delivery and infrastructure needs of the region in advance ... to help inform decision making so that these needs can be met as they arise.

This type of planning has already occurred south of Newcastle, with the Lower Hunter Regional Development Strategy.

Coal & Allied is a large member of the Hunter Valley community, and we're committed to playing our part in working with government to ensure our growth plans, and their flow-on effects to the region, can help inform decisions to cater for increasing need in areas such as developable land, child care, roads, utilities and affordable housing.

In conclusion, in the second half of 2009, the overall demand for thermal coal and semi soft coal improved after a weak first half with demand from China throughout 2009 being particularly strong.

In the first quarter of 2010 there was a change in the way metallurgical coal is priced and sold under term contracts. This change is quite likely to be sustained into the future.

For the first time, the so-called benchmark price for semi soft coking coal was set only for the first quarter, starting 1st April 2010, and Coal & Allied agreed the price at US\$167 for one quarter of the annual tonnes with our customers. The price to apply for the remainder of the year will be negotiated at later dates with the demand for metallurgical coal expected to remain strong.

The thermal coal market benchmark pricing in Japan is in the process of being agreed with our customers whose contract pricing period begins 1st April 2010.

Some settlements have been concluded, and they have been in the high US\$97 plus range. The demand for higher calorific value coal from Australia in the Asian region remains quite strong.

While our increased overburden removal will continue, this year we are aiming for a ten per cent increase in production and to make significant progress on expansion opportunities that we are currently considering, including moving quickly on remaining work on the Mount Pleasant Project ahead of a decision to build.

In closing, Coal & Allied is in a good place – with a strong balance sheet, minimal debt, high quality assets and growth opportunities.

We look forward to continuing to strive to create value for our shareholders. We remain committed to the safety of our workforce, and ensuring that our mining of coal makes a significant contribution to present and future generations.

Chris Renwick
Chairman

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