



MEDIA RELEASE

3 February 2005

2004 Annual Results

Coal & Allied benefits from improved market conditions

SUMMARY

- Net profit after tax was \$111.4 million compared with \$0.1 million profit after tax in 2003
- Net debt in Australian dollar terms reduced by 45.9% in 2004 to \$246.2 million
- A fully franked dividend of \$1.00 per share will be paid on ordinary shares

Commenting on the result, Coal & Allied's Managing Director, Dr Grant Thorne said, "This result reflects the improved market conditions for seaborne traded coal in 2004.

"Throughout the year, revenues increased because of higher coal prices and increased production. We also benefited from demurrage costs falling to an average of US\$0.19 per tonne in the second half as a result of the Port Allocation System and more efficient use of infrastructure along the Hunter Valley coal chain."

Coal & Allied's net profit was positively affected by the recognition of inpit inventory, by depreciating mining properties over their estimated life and by depreciating Hunter Valley property, plant and equipment on a units-of-production basis. These accounting adjustments, which were indicated in the first half results, had a positive effect of \$25.5 million on the full year net profit after tax.

"The new management services agreement with Rio Tinto Coal Australia was implemented at a much lower cost than expected, and delivered benefits of \$15 million for the year," Dr Thorne said.

"However, the strong Australian dollar, increased oil prices and the higher coal royalty introduced by the New South Wales Government in mid-year had a negative effect on the result.

"Despite the absence of capacity in coal infrastructure in New South Wales to accept expanded production in response to the stronger market, the outlook for Coal & Allied for 2005 is strong."

Coal & Allied Industries Limited

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SUMMARY OF FINANCIAL PERFORMANCE

Coal & Allied's results for 2004 are shown below, along with comparative results for 2003.

	Year to 31 December		Change %
	2004	2003	
Sales revenue (\$ millions)	1,024.5	895.7 ¹	14%
Net profit after tax (\$ millions)	111.4	0.1	
Operating cash flow (\$ millions)	224.7	16.7	
Dividends (cents per share)	100.0	Nil	
Coal production ² (million tonnes)	29.1	27.2	7%
Coal shipments ² (million tonnes)	28.7	27.9	3%

¹ Comparative information for 2003 has been reclassified to include sea freight receipts and foreign exchange gains.

² Production and shipments are on a 100% basis. Shipments exclude purchased coal. Details of full production and shipments are shown in the Financial and Operating Statistics appendix.

Restructure

On 1 February 2004, Rio Tinto Coal Australia (100% Rio Tinto) began managing Coal & Allied's assets in the Hunter Valley under a management services agreement. Changes to head office administration and support structures delivered annual pre-tax savings of \$20 million to Coal & Allied. A restructuring provision of \$15 million before tax was raised in 2003 to cover one-off implementation costs but actual costs totalled only \$10.5 million.

Sales revenue

Sales revenue of \$1,024.5 million was 14 per cent higher than in 2003, reflecting higher prices for export thermal coal in the second half of 2004, which were partially offset by a stronger Australian dollar.

Production

Managed production of saleable coal was up by seven per cent (1.9 million tonnes) to 29.1 million tonnes, consistent with allocation through Port Waratah and domestic contracts. Coal & Allied's share of saleable coal production was 22.1 million tonnes.

Dividends

A fully franked final dividend of \$1.00 per ordinary share will be paid. There was no interim dividend paid during 2004. A dividend of 1.75 cents per preference share, fully franked, will be paid, making the total preference dividend for the year 3.5 cents per share, fully franked.

Cash flow

Net operating cash was \$224.7 million compared with \$16.7 million in 2003. The significant change in operating cash flow reflected the effect of higher earnings resulting from better operating performance and improved coal prices in Australian dollar terms, and the timing of taxation payments/receipts in 2003 and 2004.

Debt

Net debt was lower in Australian dollar terms in 2004 at \$246.2 million. Gearing (net debt to net debt + equity) was 21.2 per cent at 31 December 2004, compared with 36.2 per cent at 31 December 2003.

Capital expenditure

Total capital expenditure for the year was \$29.5 million compared with \$55.2 million in 2003. Expenditure was predominantly for sustaining purposes, the purchase of land and the upgrade of the Coal Preparation Plant at Hunter Valley Operations. Capital expenditure in 2003 included land acquisitions for Mount Pleasant.

Port Allocation System

Extraordinarily long vessel queues at Port Waratah resulted in demurrage of US\$1.83 per tonne in the first half. With the introduction of the Port Allocation System queues were reduced to fewer than 15 vessels, with full year demurrage averaging US\$0.99 per tonne. Stakeholders in the Hunter Valley coal chain collaborated during the year through a logistics team aimed at maximising output from existing infrastructure.

Market conditions

Global thermal coal spot prices continued to rise in the first half of 2004. By year-end, average prices had drifted down by around 20 per cent, but were still very high by historical standards. Strong demand in Asia and Europe combined with a stabilising of coal exports from China, heavy rains in Indonesia early in the year and the infrastructure constraints in Australia all contributed to the strength of the seaborne thermal coal market.

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Coal & Allied Financial and Operating Statistics

	2004	2003
Production and shipments	'000 tonnes	'000 tonnes
Total shipments ¹	28,677	27,887
Total saleable production ²		
Hunter Valley Operations	13,269	12,008
Mount Thorley Operations	3,547	3,152
Bengalla	5,312	6,203
Warkworth	6,955	5,869
Total	29,083	27,232
Coal & Allied equity share of production		
Hunter Valley Operations (100%)	13,269	12,008
Mount Thorley Operations (80%)	2,838	2,522
Bengalla (40%)	2,125	2,481
Warkworth (55.57%)	3,865	3,261
Total	22,097	20,272
Shipments by market ¹		
Japan	14,441	14,876
Asia (excluding Japan)	8,630	7,388
Europe	1,564	2,349
Other	796	512
Domestic	3,246	2,762
Total	28,677	27,887
Shipments by product ¹		
Export thermal	20,172	20,316
Domestic thermal	4,306	2,762
Coking	4,198	4,809
Total	28,677	27,887
Financial	2004	2003
	\$ million	\$ million
Total assets	1,782	1,805
Capital expenditure and investments	30	55
Depreciation and amortisation	115	121
Employees	1,400	1,516
Net debt to net debt + equity (%)	21.2	36.2
Earnings per share (cents)	128.6	0.1

¹ Shipments are on a 100% basis and exclude purchased coal

² Production is on a 100% basis

Appendix 4E

31 December 2004 Preliminary Final Report

Rule 4.3A. Introduced 1/1/2003.

Name of entity

Coal & Allied Industries Limited

ABN

67 008 416 760

Financial year ended:

31 December 2004

Corresponding financial year ended:

31 December 2003

Results for announcement to the market.

A'000

<p>2.1) Revenues from ordinary activities</p> <p><i>Explanation</i> Revenue has increased compared to 2003 due to higher coal prices and increased production.</p>	up	14%	to	\$1,060,492
<p>2.2) Profit (loss) from ordinary activities after tax attributable to members</p> <p><i>Explanation</i> The profit after tax has increased due to the increased revenues, accounting adjustments and reduced unit costs.</p>	up	91,994%	to	\$111,434
<p>2.3) Net profit (loss) for the period attributable to members</p> <p><i>Explanation</i> The net profit attributable to members has increased due to the increased revenues, accounting adjustments and reduced unit costs.</p>	up	91,994%	to	\$111,434

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend		
2.4) Ordinary Shares	100.0c	100.0c
2.4) Preference Shares	1.75c	1.75c
2.5) Record date for determining entitlements to the dividend:	11 March 2005	
2.5) Date on which dividend is payable:	18 March 2005	
Interim dividend		
2.4) Ordinary Shares	Nil	Nil
2.4) Preference Shares	1.75c	1.75c
2.5) Record date for determining entitlements to the dividend:	11 August 2004	
2.5) Date on which dividend is payable:	18 August 2004	

3) Statement of Financial Performance

Refer attached.

4) Statement of Financial Position

Refer attached.

5) Statement of Cash Flows

Refer attached.

6) Details of individual and total dividend payments

Refer attached.

7) Details of dividend reinvestment plan

Not applicable.

8) Statement of retained earnings

Refer attached.

9) Net tangible assets per security

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	\$10.55	\$9.27

10) Details of entities over which control has been gained or lost

Not applicable.

11) Details of associate and joint venture entities

The Company holds 36.5% (2003: 36.5%) ownership in Port Waratah Coal Services Limited and profits from the Associate contributed \$8,236,747 (2003: \$11,105,770) to net profits of the consolidated entity.

12) Significant information

Refer press release.

13) Foreign Entities accounting standards

Not applicable.

14) Commentary on results for the period

Refer press release.

15) The report is based on accounts that are in the process of being audited.

This report is to be read in conjunction with the most recent annual financial report.

Coal & Allied Industries Limited and controlled entities
Appendix 4E - Statements of financial performance
For the year ended 31 December 2004

	Notes	Consolidated	
		2004	2003
		\$000	\$000
Revenue from sale of goods	2	1,024,463	895,731
Other revenue	2	<u>36,029</u>	<u>35,940</u>
Revenue from ordinary activities		1,060,492	931,671
Carrying value of non-current assets sold		(10,484)	(3,409)
Increase/(decrease) in inventories of finished goods and work in progress		24,132	(28,928)
Raw materials and consumables used		(229,651)	(190,188)
Selling and distribution expenses		(199,080)	(211,060)
Employee benefit expenses		(179,075)	(213,418)
Depreciation and amortisation expenses	3	(115,396)	(121,297)
Borrowing costs	3	(13,799)	(15,871)
Administration and other mining expenses		(184,896)	(196,078)
Shares of net profits of associates accounted for using the equity method	23	<u>8,237</u>	<u>11,106</u>
Profit / (loss) from ordinary activities before income tax expense / benefit		160,480	(37,472)
Income tax (expense) / benefit	4	<u>(49,046)</u>	<u>37,593</u>
Profit / (loss) from ordinary activities after income tax expense / benefit		<u>111,434</u>	<u>121</u>
Net profit attributable to members of Coal & Allied Industries Limited		<u>111,434</u>	<u>121</u>
Adjustment resulting from change in accounting policy		<u>-</u>	<u>(2,048)</u>
Total revenues, expenses and valuation adjustments attributable to members of Coal & Allied Industries Limited recognised directly in equity		<u>-</u>	<u>(2,048)</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>111,434</u>	<u>(1,927)</u>
Basic earnings per share (cents)	25, 1(w)	128.6	0.1
Diluted earnings per share (cents)	25, 1(w)	128.6	0.1

The above statement of financial performance should be read in conjunction with the accompanying notes

Coal & Allied Industries Limited and controlled entities
Appendix 4E - Statements of financial position
As at 31 December 2004

		Consolidated	
	Notes	2004	2003
		\$000	\$000
Current assets			
Cash assets	5	78,512	17,289
Receivables	6	91,715	77,565
Inventories	7	72,239	46,059
Tax assets	12	-	29,124
Other assets	8	1,795	901
Total current assets		<u>244,261</u>	170,938
Non-current assets			
Receivables	6	39,181	27,282
Investments accounted for using the equity method	9	82,033	78,453
Other financial assets	10	585	2,007
Property, plant and equipment	11	1,256,277	1,336,668
Tax assets	12	61,887	76,578
Other assets	8	97,459	112,993
Total non-current assets		<u>1,537,422</u>	1,633,981
Total assets		<u>1,781,683</u>	1,804,919
Current liabilities			
Payables	13	126,817	95,218
Interest bearing liabilities	14	150,017	110,580
Tax liabilities	15	26,529	-
Provisions	16	38,655	71,269
Other liabilities	18	45,774	38,866
Total current liabilities		<u>387,792</u>	315,933
Non-current liabilities			
Payables	13	18,753	18,904
Interest bearing liabilities	14	174,647	361,960
Tax liabilities	15	56,344	56,344
Deferred tax liabilities	17	56,925	61,887
Provisions	16	129,926	108,324
Other liabilities	18	44,048	79,379
Total non-current liabilities		<u>480,643</u>	686,798
Total liabilities		<u>868,435</u>	1,002,731
Net assets		<u>913,248</u>	802,188
Equity			
Parent entity interest			
Contributed equity	19	441,757	441,757
Reserves	20(a)	7,385	7,385
Retained profits	20(b)	462,677	351,308
Total parent entity interest		<u>911,819</u>	800,450
Outside equity interest in controlled entities	21	1,429	1,738
Total equity	22	<u>913,248</u>	802,188

The above statement of financial position should be read in conjunction with the accompanying notes

Coal & Allied Industries Limited and controlled entities
Appendix 4E - Statements of cash flows
For the year ended 31 December 2004

	Notes	Consolidated	
		2004	2003
		\$000	\$000
Cash flows from operating activities			
Receipts from customers (inclusive of Goods and Services Tax)		1,002,057	839,769
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(817,329)	(773,560)
		184,728	66,209
Dividends received		12,161	12,201
Interest received		1,252	601
Borrowing costs		(14,841)	(16,645)
Income taxes received (paid)		16,239	(75,822)
Other	24	25,123	30,107
Net cash inflow from operating activities	24	224,662	16,651
Cash flows from investing activities			
Payments for property, plant and equipment		(29,549)	(55,185)
Proceeds from sale of property, plant and equipment		9,289	4,950
Net cash outflow from investing activities		(20,260)	(50,235)
Cash flows from financing activities			
Repayment of lease liabilities		(5,070)	(8,294)
Loans from related entities		269,176	86,456
Dividends paid		(65)	(34,699)
Repayment of loans from related entities		(411,768)	(9,170)
Net cash inflow (outflow) from financing activities		(147,727)	34,293
Net increase in cash held		56,675	709
Cash at the beginning of the financial year	5	6,948	6,239
Cash at the end of the financial year	5	63,623	6,948
Financing arrangements	24		

The above statement of cash flows should be read in conjunction with the accompanying notes

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 1. Summary of significant accounting policies

This preliminary final report has been prepared in accordance with ASX listing rule 4.3A and the disclosure requirements of ASX appendix 4E.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Coal & Allied Industries Limited ("Coal & Allied" or "parent entity") as at 31 December 2004 and the results of all controlled entities for the year. Coal & Allied and its controlled entities together are referred to in this financial report as the consolidated entity or the group. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised in the consolidated statement of financial performance, and its share of movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of investments. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

Investments in joint ventures are accounted for as set out in Note 1(c).

(b) Investments

Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements are stated at the lower of cost or valuation. Dividend income is recognised in the statement of financial performance when received. Controlled entities and associates are accounted for in the consolidated financial statements as set out in Note 1(a).

(c) Joint ventures

The proportionate interests in the assets, liabilities and expenses of joint ventures have been incorporated in the financial statements under the appropriate headings.

Note 1. Summary of significant accounting policies (cont'd)

(d) Inventories

Inventories of coal are physically measured or estimated and valued at the lower of cost and net realisable value. Cost is determined as follows:

- (i) Coal Stocks - cost comprises average mining cost under normal mining conditions or actual purchase price and, where applicable, coal preparation expenditure, fixed and variable overhead costs and transportation costs.
- (ii) Stores - cost comprises average cost or purchase price and associated charges. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their disposal.

Net realisable value is the amount estimated to be obtained from sale of the inventory in the normal course of business less any anticipated costs to be incurred prior to its sale.

Change in accounting policy for inventories

Inventories of coal now include a value for in-pit inventory as well as run of mine (ROM) stocks and saleable coal stocks at the mine and port which were valued under the previous policy. The new application of the policy was adopted to better match costs with revenue. The effect of the change of policy for the year was an increase in profit before tax of \$12,536,274 and a corresponding increase in inventories.

The restatements of the statement of financial performance, retained profits, and inventory show the information that would have been disclosed had the new accounting policy always been applied.

	Consolidated	
	2004	2003
	\$000	\$000
	(restated)	(restated)
Restatement of the statement of financial performance		
Profit from ordinary activities before increase/(decrease) in inventories of finished goods and work in progress and related income tax expense	136,348	(8,544)
Increase/(decrease) in inventories of finished goods and work in progress	14,751	(42,616)
Profit / (loss) from ordinary activities before income tax expense	151,099	(51,160)
Income tax (expense) / benefit	(46,232)	41,700
Net-profit from ordinary activities after income tax expense	104,867	(9,460)
Net profit attributable to outside equity interest	-	-
Net profit attributable to members of Coal and Allied Industries Limited	104,867	(9,460)
Restatement of retained profits		
Retained profits at the beginning of the financial year	357,875	369,415
Net profit attributable to members of Coal & Allied Industries Limited	104,867	(9,460)
Adjustment resulting from change in accounting policy for		
- providing for dividends	-	34,667
- providing for employee entitlements	-	(2,048)
Dividends provided for or paid	(65)	(34,699)
Retained profits at the end of the financial year	462,677	357,875
Restatement of inventory		
Coal stocks – at cost	56,326	31,144
Coal stocks – at net realisable value	-	9,080
Raw materials and stores – at cost	18,527	17,832
Provision for diminution of value – stores	(2,614)	(2,616)
	72,239	55,440

Note 1. Summary of significant accounting policies (cont'd)

(e) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. Income tax on timing differences and tax losses is set aside to the deferred income tax and future income tax benefit accounts at the tax rates at which they are expected to reverse. The balances are carried forward as assets and liabilities provided, in the case of tax losses, their realisation is virtually certain.

Tax consolidation legislation

Coal & Allied and its wholly owned subsidiaries formed a tax consolidated group with effect from 1 January 2003.

As a consequence, Coal & Allied, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax funding agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax funding agreement are recognised as a component of income tax expense (revenue).

The deferred tax balances recognised by the parent entity and the consolidated entity in relation to wholly-owned entities joining the tax consolidated group are initially measured and re-measured based on the carrying amounts of the assets and liabilities of those wholly-owned entities at the level of the tax consolidated group and their tax values, as applicable under tax consolidation (including the impact of any resetting of the tax values of assets). The impact on the income tax expense for the year is disclosed in Note 4.

(f) Depreciation and amortisation

Depreciation on property, plant and equipment, with the exception of freehold land, is provided at rates in accordance with their estimated useful lives and residual values, all of which are subject to regular review. Estimated useful lives are measured in terms of time, work units or production, whichever is appropriate. Deferred operating mine costs are amortised over a period which does not exceed the envisaged economic mine life.

The estimated expected useful lives are as follows:

Mining properties – remaining marketable reserves utilised on a unit of production basis (refer Note 1(ab)).

Machinery and equipment - the shorter of applicable mine life and 5-15 years depending on the nature of the asset.

Buildings not being part of mining properties – 40 years.

Note 1. Summary of significant accounting policies (cont'd)

(g) Exploration, evaluation and development expenditure

Exploration and evaluation expenditure incurred by or on behalf of the entity is accumulated separately for each area of interest. Such expenditure comprises net direct costs.

Exploration expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

- (i) such costs are expected to be recouped through successful development and production of the area of interest, or alternatively, by its sale; or
- (ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure that fails to meet at least one of the conditions outlined above is written off to the extent that it is considered not recoverable. In the event that an area of interest is abandoned, or the Directors consider the expenditure to be of no value, accumulated costs carried forward are written off in the period in which that assessment is made.

Development expenditure incurred is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure comprises net direct costs. Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified under non-current assets as deferred mining costs.

All expenditure incurred prior to the commencement of commercial levels of production from each development property, is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

(h) Mine properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which mining of coal has commenced. When a developed mine has been acquired the fair value of the mining rights purchased is included in mine properties.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Costs are amortised over the remaining marketable reserves to which they relate on a unit of production basis. The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount, that excess is either fully provided against or written off in the financial year in which this is determined.

Note 1. Summary of significant accounting policies (cont'd)

(i) Employee entitlements

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised as a provision and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Additional long service leave payments are made monthly to the Coal Mining Industry (Long Service Leave Funding) Corporation based on the eligible monthly payroll of employees involved in the mining of black coal. Reimbursement is sought from the fund when long service leave is paid to employees involved in the mining of black coal. An asset for the amount recoverable from the Coal Mining Industry (Long Service Leave Funding) Corporation is recognised.

(j) Superannuation

The consolidated entity's method of accounting for superannuation benefits related to employer sponsored funds recognises surpluses or deficits in a progressive manner determined by a range of financial assumptions plus the expected future service of each employee. The amount charged to the statement of financial performance in respect of superannuation represents the contributions made by the consolidated entity to the superannuation fund adjusted by the movement in the liability or asset.

Contributions paid by way of a levy on wages to the industry-wide defined benefit "Miners Superannuation Plan", are expensed as incurred. Contributions to the "COSAF Superannuation Plan", an industry-wide accumulation style fund, are also expensed as incurred.

(k) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of the minimum lease payments. Lease payments are allocated between principal component of the lease liability and the interest expense.

The lease assets are amortised on a straight line basis over the term of the leases, or where it is likely that the consolidated entity will obtain ownership of the assets, the life of the asset. Lease assets held at reporting date are amortised over periods ranging from 3 to 21 years. Operating lease payments are expensed as incurred.

Note 1. Summary of significant accounting policies (cont'd)

(l) Foreign currency

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

(ii) Specific commitments

Any hedging is undertaken to avoid or minimise possible adverse financial effects of movements in exchange rates. When anticipated sale transactions have been hedged, actual sales that occur during the designated hedged period are accounted for as having been hedged until the amounts of those transactions in the designated period are fully allocated against the hedged amounts.

If the hedged transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previously deferred gains or losses are recognised as revenue or expense immediately.

If the hedge is terminated prior to its maturity date and the transaction in respect of that hedge is still expected to occur as designated, deferral of any gains and losses, which arose prior to termination continues and those gains and losses are included in the measurement of the hedged transaction.

In circumstances where a hedge is terminated prior to maturity because the hedged transaction is no longer expected to occur as designated, any previously deferred gains and losses are recognised in the statement of financial performance on the date of termination.

If the hedge is redesignated as a hedge of another commitment because the original sale transaction is no longer expected to occur as designated, the gains and losses that arise on the hedge prior to its redesignation are recognised in the statement of financial performance at the date of the redesignation.

(iii) Foreign controlled entities

As the foreign controlled entities are self-sustaining, their assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while their revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

(m) Coal swap contracts

The consolidated entity enters into coal swap contracts where it agrees to sell specified quantities of coal in the future at a predetermined price. The objective is to match the hedge contract with anticipated future cash flows from sales and to protect the consolidated entity against the possibility of loss from coal price fluctuations. Gains and losses on the hedge contracts are recognised at the execution of the underlying transaction.

(n) Recoverable amount of non-current assets

The carrying amounts of non-current assets are reviewed regularly to ensure that their carrying amounts are not in excess of recoverable amounts. In assessing recoverable amounts, the expected net cash flows from the continued use and subsequent disposal of the non-current assets are discounted to their present values using a market determined risk adjusted rate as considered necessary.

Independent values for land and buildings, not being mining properties, are obtained at least every three years and the date of the last valuation and current values are disclosed in the notes to the financial statements.

Note 1. Summary of significant accounting policies (cont'd)

(o) Cash

For the purposes of the statement of cash flows, cash includes cash on hand, deposits held at call with banks, and investments in money market instruments both directly, and through a related party, net of any bank overdrafts.

(p) Rehabilitation and restorations

Restoration costs for current operations are provided for on an incremental basis over the remaining mine life. For closed operations, the full cost of restoration has been recognised where that can reliably be estimated. Restoration obligations recognised include those imposed as conditions of the granting of the respective mining tenements. Usually, this involves restoring the land to a condition suitable for grazing. Restoration costs have been estimated on the basis of current, undiscounted costs. Changes in estimates are dealt with on a prospective basis.

(q) Revenue recognition

Amounts are recognised as sales revenue when there has been a passing of risk to the customer, and:

- (i) the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the producer;
- (ii) the quantity and quality of the product can be determined with reasonable accuracy;
- (iii) the product has been despatched to the customer and is no longer under the physical control of the producer (or property in the product has earlier passed to the customer); and
- (iv) the selling price can be determined with reasonable accuracy.

Sales revenue represents gross proceeds receivable from the customer after netting the results of any hedging in respect of those sales.

(r) Receivables

Collectibility of trade debtors is reviewed on an ongoing basis. Debts are normally outstanding for less than thirty days at any one time. A provision for doubtful debts is raised where some doubt as to collection exists.

(s) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within thirty days of recognition.

(t) Borrowings

Included in borrowings are finance leases carried at their principal amounts that represent the present value of future cash flows associated with servicing the debt. Interest is accrued in the period it becomes due.

Note 1. Summary of significant accounting policies (cont'd)

(u) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions. A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

Where the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing to zero the recorded amounts of the non-monetary assets acquired, a discount on acquisition balance remains it is recognised as revenue in the statement of financial performance.

On acquisition of some, or all, of the equity of a controlled entity, the identifiable net assets acquired are measured at their fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring is brought to account as goodwill. Goodwill is amortised on a straight-line basis over the lesser of twenty years or the period during which the benefits are expected to arise.

(v) Borrowing expenses

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- (i) interest on bank overdrafts and short-term and long-term borrowings;
- (ii) amortisation of discounts or premiums relating to borrowings;
- (iii) amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- (iv) finance lease charges.

(w) Earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax and preference share dividends attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year.

(x) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Note 1. Summary of significant accounting policies (cont'd)

(y) Employee share savings plan

On 10 September 2001, qualifying employees across the global Rio Tinto Limited Group, including employees of the company, were offered participation in the Rio Tinto Share Savings Plan ("SSP"). Under the SSP, qualifying employees who elect to participate in the SSP, determine a fixed rate savings plan for either a three or five year term, which is restricted within a set minimum and maximum per month as determined each year under the SSP. The monthly minimum and maximum savings restrictions are detailed in the table below:

Share Savings Plan year	Monthly minimum savings level \$	Monthly maximum savings level \$
2001	15	690
2002	15	740
2003	15	605
2004	15	665

Options are granted annually to participating employees, with the number of options granted determined by their fixed rate savings plan. Options granted are for the acquisition of Rio Tinto Limited shares at a price that is at a 20% discount to the market price at the time of the grant.

When options are exercised any shortfall between the exercise price paid by the employee of the company and the market price of the Rio Tinto Limited shares at the date of exercise is charged by Rio Tinto Limited to the company. The company recognises as an employee benefits expense the 20% discount over the life of the option. Any shortfall between the current market price and the market price at the time of the grant is recognised in the period as an employee benefit expense in the statement of financial performance.

(z) Equity-based compensation benefits

Equity-based compensation benefits are provided to executives via the Rio Tinto employee option plan. Options granted are for the acquisition of Rio Tinto Limited shares.

No accounting entries are made in relation to the Rio Tinto employee option plan until options are exercised. When options are exercised any shortfall between the exercise price paid by the employee of the company and the market price of the Rio Tinto Limited shares at the date of exercise is charged by Rio Tinto to the company. The company recognises the charge as an employee benefits expense in the statement of financial performance.

(aa) Dividends

Provision is only made for the amount of any dividend declared by the directors on or before the end of the financial year but not distributed at balance date.

(ab) Revision of accounting estimate

(i) Mining Properties amortisation

On 1 January 2004, the company re-assessed the estimated life of mining properties for amortisation purposes. From that date, mining properties are amortised over the remaining marketable reserves to which they relate on a unit of production basis. Previously, mining properties were amortised over the shorter of applicable mine life and 20 years. The effect of the change in the current year was a decrease in amortisation expense of \$13,737,477.

(ii) Hunter Valley depreciation methodology

On 1 January 2004, the Hunter Valley Operations revised its depreciation methodology on certain items of property, plant and equipment from a straight-line basis to a units-of-production basis. The effect of the change in the current year was a decrease in depreciation expense of \$4,334,000.

Note 1. Summary of significant accounting policies (cont'd)

(ac) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian Equivalents to IFRS will be reflected in the consolidated entity's financial statements for the half-year ending 30 June 2005 and the year ending 31 December 2005.

Entities complying with the Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 January 2004.

The consolidated entity has established a project team to manage the transition to Australian equivalents to IFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer. The project team has prepared a detailed timetable for managing the transition and is currently on schedule. To date the project team have analysed the Australian equivalents to IFRS and have identified a number of accounting policy changes that will be required. There may be additional accounting policy changes required as interpretations in the application of all Australian equivalents to IFRS are finalised.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

(i) Income tax

Under the new AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

As at the date of this report, the most significant estimated change will be to recognise a deferred tax liability of \$215 million on the fair value of mining rights acquired in prior years and a reduction to opening retained earnings as at 1 January 2004 will also be made for \$215 million.

This change will result in an estimated decrease in deferred tax expense in 2004 of \$9 million.

Note 1. Summary of significant accounting policies (cont'd)

(ac) International Financial Reporting Standards (IFRS) (cont'd)

(ii) Provisions for close down and restoration and for environmental clean up costs

Under the new AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* provision is made both for close down and restoration and for environmental clean up costs in the accounting period when the related environmental disturbance occurs, based on the net present value of estimated future costs.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the profit and loss account in each accounting period. The amortisation of the discount is shown as a financing cost rather than as an operating cost. For close down and restoration costs, which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas, movements in provision other than the amortisation of the discount, such as those resulting from changes in the cost estimates, in the lives of operations or in discount rates, are capitalised and depreciated over future production.

This will result in a change to the current accounting policy, whereby restoration and close down costs are provided for on an incremental basis over the remaining mine life. Restoration and close down costs have been estimated on the basis of current, undiscounted costs. Changes in estimates are dealt with on a prospective basis.

The change in policy as at 1 January 2004 is estimated to result in an increase of the restoration, closure and environmental provision of \$46 million, an increase in the net closure asset of \$11 million, an increase in deferred tax assets of \$10 million and a decrease in retained earnings of \$25 million.

The impact of this change on the 2004 pre tax profit is estimated to be a net increase of \$2 million resulting from a net decrease of \$6 million to the charge to the restoration, closure and environmental provision, and increased financing charges (being the unwinding of the discount on the closure provision) of \$4 million.

Other items identified to date that will require changes to the consolidated entity's existing accounting policies include the following:

(iii) Equity-based compensation benefits

Under the new AASB 2 *Share-based Payment*, equity-based compensation to employees will be recognised as an expense in respect of the services received. Equity-based compensation is measured at the fair value of the share options determined at grant date and recognised over the expected vesting period of the options.

This will result in a change to the current accounting policy, under which the consolidated entity recognises as an expense over the life of the option the 20% discount granted on options granted under the Rio Tinto Share Savings Plan. No expense is recognised in relation to the Rio Tinto Employee Option Plan.

Note 1. Summary of significant accounting policies (cont'd)

(ac) International Financial Reporting Standards (IFRS) (cont'd)

(iv) Financial instruments

The consolidated entity will apply the new AASB 139 *Financial Instruments: Recognition and Measurement* from 1 January 2005. There may be major impacts as a result of:

- (a) financial assets held by the consolidated entity being subject to classification as either held for trading, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost
- (b) foreign exchange contracts and coal swaps held for hedging purposes being accounted for as cash flow hedges. Changes in the fair value of those contracts will be recognised directly in equity until the hedged transaction occurs, in which case the amounts recognised in equity will be included in the statement of financial performance. Currently, the costs or gains arising under foreign exchange contracts together with any realised or unrealised gains from remeasurement are included in assets or liabilities as deferred losses or deferred gains. Currently no amounts are recognised under the coal swaps until amounts become payable or receivable under the contract or the hedge transaction occurs..
- (c) coal swaps held for hedging purposes being accounted for as fair value hedges. Changes in the fair value of those contracts will be recognised directly in the statement of financial performance, together with the underlying fair value of the fixed price sales contract. Currently no amounts are recognised until amounts become payable or receivable under the contract or the hedge transaction occurs..

The above represent the major changes in accounting policies identified to date that will result from the transition to Australian equivalents to IFRS.

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 2. Revenue

	Consolidated	
	2004	2003
	\$000	\$000
Revenue from operating activities		
Sale of goods	1,024,463	895,731
	1,024,463	895,731
Revenue from outside the operating activities		
Interest	1,252	601
Dividends	266	-
Sale of non-current assets	9,368	5,251
Coal handling services	6,294	14,792
Management fees	4,804	3,666
Coal compensation receipts	-	582
Rental income	5,547	3,387
Other income	8,498	7,661
Total other revenue	36,029	35,940
Total revenue from ordinary activities	1,060,492	931,671

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 3. Operating profit

	Consolidated	
	2004	2003
	\$000	\$000
(a) Net gains and expenses		
Profit from ordinary activities before income tax expense includes the following specific net gains and expenses:		
Net gains/(losses)		
Net gain/(loss) on disposal		
Property, plant and equipment	<u>(1,116)</u>	1,842
Expenses		
Cost of sales of goods	664,099	670,699
Depreciation		
Mining properties (buildings)	6,414	7,793
Plant and equipment	59,438	56,987
Total depreciation	<u>65,852</u>	64,780
Amortisation		
Plant and equipment under finance leases	3,970	4,172
Deferred mining costs	15,427	9,624
Mining properties	30,147	42,721
Total amortisation	<u>49,544</u>	56,517
Total depreciation and amortisation	115,396	121,297
Borrowing expenses		
Interest and finance charges paid/payable	<u>13,799</u>	15,871
	13,799	15,871
Foreign exchange gains and losses		
Other net foreign exchange (gains) / losses	<u>2,873</u>	4,777
Net foreign exchange (gains) / losses	<u>2,873</u>	4,777
Other provisions		
Employee entitlements	18,526	30,159
Restoration, rehabilitation and environmental	10,936	14,341
Total other provisions	<u>29,462</u>	44,500
Rental expense relating to operating leases		
Minimum lease payments	2,218	1,921
Research and development	150	265
Government royalties	45,851	40,897

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 4. Income tax

The income tax expense for the financial year differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:

	Consolidated	
	2004	2003
	\$000	\$000
Profit / (loss) from ordinary activities before income tax expense / benefit	160,480	(37,472)
Prima facie tax payable at a tax rate of 30% (2003: 30%)	48,144	(11,242)
Income tax expense / (benefit)	49,046	(37,593)
Difference (unfavourable) / favourable	(902)	26,351
The tax effect of permanent differences:		
Rebateable dividends	2,733	314
Capital gains	-	(485)
Share of net profits of associate	(3,371)	(4,885)
Profit on sales of assets	-	53
Foreign exchange gains	8,552	9,420
Adjustments to deferred tax balances on implementation of tax consolidation	(1,585)	29,619
Non-deductible depreciation and amortisation	(6,501)	(12,923)
Research and development	75	408
Other items	(106)	(1,295)
	(203)	20,226
Over provision (Under provision) in prior period	(699)	6,125
	(902)	26,351

Tax losses

Future income tax benefit shown in Note 12 which is attributable to tax losses: - 9,438

This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Tax consolidation legislation

As set out in Note 1(e), Coal & Allied and its wholly owned subsidiaries, formed a tax consolidated group with effect from 1 January 2003.

Coal & Allied Industries Limited and controlled entities
Appendix 4E - Notes
31 December 2004

Note 5. Cash assets

	Consolidated	
	2004	2003
	\$000	\$000
Cash at bank	78,512	17,289

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	78,512	17,289
Less: Bank overdrafts and working capital facility (Note 14)	(14,889)	(10,341)
Balances per statement of cash flows	63,623	6,948

The cash at bank is earning interest rates between 0.00% and 5.30%. The interest rate of bank overdraft facilities range from 8.60% to 9.10%. The working capital facility bears interest at 2.27%.

Note 6. Receivables

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Trade debtors	52,156	43,800
Less: Provision for doubtful debts	-	-
	52,156	43,800
Long service leave receivable from Coal Mining Industry (Long Service Leave Funding) Corporation	6,779	11,124
Other debtors	32,780	22,641
	91,715	77,565
Non-current		
Surplus in superannuation fund	3,731	2,573
Long service leave receivable from Coal Mining Industry (Long Service Leave Funding) Corporation	33,987	22,427
Other debtors	1,463	2,282
	39,181	27,282

Note 7. Inventories

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Coal stocks – at cost	56,326	21,763
Coal stocks – at net realisable value	-	9,080
Raw materials and stores – at cost	18,527	17,832
Provision for diminution of value – stores	(2,614)	(2,616)
	72,239	46,059

Coal & Allied Industries Limited and controlled entities**Appendix 4E - Notes**

31 December 2004

Note 8. Other assets

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Prepayments	<u>1,795</u>	<u>901</u>
Non-current		
Deferred mining costs:		
Areas of interest in the production phase (Note 1(h))	146,852	146,695
Accumulated amortisation	(85,553)	(69,902)
	<u>61,299</u>	<u>76,793</u>
Areas of interest in the development phase (Note 1(g))	34,762	34,658
Provision for non-realisation	(8,606)	(8,462)
	<u>26,156</u>	<u>26,196</u>
Areas of interest in the exploration and evaluation phase (Note 1(g))	26,197	26,197
Provision for non-realisation	(16,193)	(16,193)
	<u>10,004</u>	<u>10,004</u>
	<u>97,459</u>	<u>112,993</u>

Note 9. Non-current assets – Investments accounted for using the equity method

	Consolidated	
	2004	2003
	\$000	\$000
Shares in associates (Note 23)	<u>82,033</u>	<u>78,453</u>

Shares in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

Note 10. Non-current assets – Other financial assets

	Consolidated	
	2004	2003
	\$000	\$000
Other (non-traded) investments		
Shares at cost – other corporations	<u>585</u>	<u>2,007</u>

Coal & Allied Industries Limited and controlled entities**Appendix 4E - Notes**

31 December 2004

Note 11. Non-current assets – Property, plant and equipment

	Consolidated	
	2004	2003
	\$000	\$000
Land and buildings		
Freehold land and buildings		
At cost	<u>6,355</u>	<u>6,355</u>
Operational mining properties		
At cost	1,099,311	1,096,056
Less: Accumulated amortisation and depreciation	(244,054)	(209,310)
Less: Provision for diminution	(10,477)	(10,036)
	<u>844,780</u>	<u>876,710</u>
Plant and equipment		
At cost	1,234,160	1,211,831
Less: Accumulated depreciation	(894,574)	(840,885)
	<u>339,586</u>	<u>370,946</u>
Plant and equipment under finance lease		
Under finance lease	56,806	62,766
Less: Accumulated amortisation	(16,335)	(17,729)
	<u>40,471</u>	<u>45,037</u>
Capital work in progress		
At cost	<u>25,085</u>	<u>37,620</u>
Total plant and equipment	<u>405,142</u>	<u>453,603</u>
Total property, plant and equipment	<u>1,256,277</u>	<u>1,336,668</u>

Valuations of land and buildings

The basis of triennial valuation of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction. The latest revaluation of properties other than mining leases as at 31 December 2002 was \$31,812,000 and carried out by Mr C Drew, FAPI, AREI. This valuation was not booked. The book value of these properties is \$6,355,347.

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 11. Non-current assets – Property, plant and equipment (cont'd)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below.

	Freehold land \$000	Operational mining properties \$000	Plant & equipment \$000	Plant & equipment under lease \$000	Capital work in progress \$000	Total \$000
Consolidated – 2004						
Carrying amount at start of year	6,355	876,710	370,946	45,037	37,620	1,336,668
Additions	-	-	-	-	29,549	29,549
Disposals	-	(1,743)	(8,662)	-	-	(10,405)
Depreciation/amortisation expense (Note 3)	-	(36,561)	(59,438)	(3,970)	-	(99,969)
Other	-	6,374	36,740	(596)	(42,084)	434
Carrying amount at end of year	<u>6,355</u>	<u>844,780</u>	<u>339,586</u>	<u>40,471</u>	<u>25,085</u>	<u>1,256,277</u>

Note 12. Tax assets

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Income tax recoverable	-	29,124
Non-current		
Future income tax benefit	<u>61,887</u>	<u>76,578</u>

Note 13. Payables

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Trade creditors	90,168	64,986
Related party creditors	3,706	-
Deferred revenue	2,739	598
Other creditors	<u>30,204</u>	<u>29,634</u>
	<u>126,817</u>	<u>95,218</u>
Non-current		
Deferred revenue	12,887	13,479
Debentures	7	7
Loans from related parties	5,859	5,418
	<u>18,753</u>	<u>18,904</u>

Note 14. Interest bearing liabilities

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Bank overdrafts and working capital facility	14,889	10,341
Lease liability	4,089	5,266
Loan from related entities	131,039	94,973
	150,017	110,580
Non-current		
Lease liability	40,031	43,924
Loan from related entities	133,606	317,026
Other loan	1,010	1,010
	174,647	361,960

Bank overdraft and working capital facility

The bank overdraft amounts to \$nil (2003 - \$nil) and bears interest between 8.6% and 9.1%. The working capital facility is drawn to \$14.9 million (2003 -\$10.3 million), is unsecured, and bears interest at 2.27%.

Leases

Leases are secured by the plant and equipment to which they relate.

Loan from related entities

The loan from related parties can be drawn in either United States dollars or Australian dollars and was at floating interest rates during the year, which were between 1.7% and 2.9%.

On 20 December 2004 the company refinanced its loan facility with Rio Tinto Finance Limited. The change resulted in a reduction in the interest margin by 22.5 basis points, and a new repayment schedule with the final payment due in December 2006.

Other loan

Other loan is secured by a bank guarantee and bears interest of 4.0%.

Note 15. Tax liabilities

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Income tax	26,529	-
Non-current		
Income tax	56,344	56,344

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 16. Provisions

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Employee entitlements	25,057	50,659
Mine site restoration	10,876	13,371
Other	2,722	7,239
	38,655	71,269
Non-current		
Employee entitlements	66,768	51,950
Mine site restoration	63,158	56,374
	129,926	108,324

Movement in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below.

Current	Mine site restoration	Dividends	Others	Total
	\$000	\$000	\$000	\$000
Consolidated – 2004				
Carrying amount at start of year	13,371	-	7,239	20,610
Additional provisions recognised	179	65	921	1,165
Payments/other sacrifices of economic benefits	(2,674)	(65)	(5,438)	(8,177)
Carrying amount at end of the year	10,876	-	2,722	13,598
Non-current	Mine site restoration	Dividends	Others	Total
	\$000	\$000	\$000	\$000
Consolidated - 2004				
Carrying amount at start of year	56,374	-	-	56,374
Additional provisions recognised	10,757	-	-	10,757
Payments/other sacrifices of economic benefits	(3,973)	-	-	(3,973)
Carrying amount at end of the year	63,158	-	-	63,158

Note 17. Deferred tax liabilities

	Consolidated	
	2004	2003
	\$000	\$000
Provision for deferred income tax	56,925	61,887

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 18. Other liabilities

	Consolidated	
	2004	2003
	\$000	\$000
Current		
Deferred foreign currency movement on US dollar loans (gains on designated hedges)	<u>45,774</u>	<u>38,866</u>
Non-current		
Deferred foreign currency movement on US dollar loans (gains on designated hedges)	<u>44,048</u>	<u>79,379</u>

Note 19. Contributed equity

	2004	2003	2004	2003
	Shares	Shares	\$000	\$000
	'000	'000	\$000	\$000
(a) Share capital				
Ordinary shares - Fully paid	86,584	86,584	440,828	440,828
7% non-redeemable non-participating cumulative preference shares fully paid	1,858	1,858	929	929
			<u>441,757</u>	<u>441,757</u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up the company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

The 7% non-redeemable, non-participating cumulative preference shares are entitled to a fixed dividend of 7% per annum and rank ahead of ordinary shares for the return of capital on winding up of the Company. They have no conversion rights and have no right to participate in any other distributions. They are not potential ordinary shares and are not included in the calculation of basic and diluted earnings per share. Each preference shareholder is entitled to one vote per share at shareholders meetings.

(b) Movements in ordinary share capital:

		2004	2004
		Number of shares	\$000
Date	Details	'000	\$000
1 January 2004	Opening balance	86,584	440,828
31 December 2004	Balance	<u>86,584</u>	<u>440,828</u>

Note 20. Reserves and retained profits

	Consolidated	
	2004	2003
	\$000	\$000
(a) Reserves		
Asset revaluation reserve	7,042	7,042
Foreign currency translation reserve	343	343
	<u>7,385</u>	<u>7,385</u>
Movements:		
Asset revaluation reserve		
Balance 1 January 2004	7,042	7,042
Amount transferred to retained profits	-	-
Balance 31 December 2004	<u>7,042</u>	<u>7,042</u>
Foreign currency translation reserve		
Balance 1 January 2004	343	343
Net exchange differences on translation of foreign controlled entity	-	-
Balance 31 December 2004	<u>343</u>	<u>343</u>
(b) Retained profits		
Retained profits at the beginning of the financial year	351,308	353,267
Net profit attributable to members of Coal & Allied Industries Limited	111,434	121
Adjustment resulting from change in accounting policy:		
- providing for dividends	-	34,667
- providing for employee entitlements	-	(2,048)
Dividends provided for or paid	(65)	(34,699)
Retained profits at the end of the financial year	<u>462,677</u>	<u>351,308</u>

(c) Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve was used to record increments and decrements on the revaluation of non-current assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities, Darex Capital Inc and CNA UK Limited, are taken to the foreign currency translation reserve, as described in Note 1(l).

Note 21. Outside equity interests in controlled entities

	Consolidated	
	2004	2003
	\$000	\$000
Interest in:		
Share capital	1,356	1,665
Reserves	26	26
Retained profits	47	47
	<u>1,429</u>	<u>1,738</u>

Coal & Allied Industries Limited and controlled entities

Appendix 4E - Notes

31 December 2004

Note 22. Equity

	Consolidated	
	2004	2003
	\$000	\$000
Total equity at the beginning of the financial year	802,188	804,147
Adjustments to retained earnings at the beginning of the financial year resulting from change in accounting policy for:		
- providing for dividends	-	34,667
- providing for employee entitlements	-	(2,048)
Total changes in equity recognised in the statement of financial performance	111,434	121
Transactions with owners as owners:		
Dividends provided for or paid	(65)	(34,699)
Total changes in outside equity interest	(309)	-
Total equity at the end of the financial year	913,248	802,188

Note 23. Investments in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. The equity method became applicable with effect from 1 July 1999 when Coal & Allied determined that it achieved the capacity to significantly influence Port Waratah Coal Services Limited ("PWCS"). Coal & Allied's investment has been adjusted to reflect its share of PWCS operating profit after tax and dividends since the date of its original investment – the last reporting date of PWCS was 31 December 2004. Information relating to the associates is set out below.

Name of company	Principal Activity	Ownership interest		Consolidated carrying amount	
		2004	2003	2004	2003
		%	%	\$000	\$000
Port Waratah Coal Services Limited	The provision of coal receipt, blending, stockpiling and ship loading services in the Port of Newcastle	36.5	36.5	82,033	78,453

	Consolidated	
	2004	2003
	\$000	\$000
Movements in carrying amounts of investments in associates		
Carrying amount at the beginning of the financial year	78,453	79,504
Share of profits from ordinary activities after income tax	8,237	11,106
Dividends received/receivable	(8,843)	(12,475)
Other	4,186	318
Carrying amount at the end of the financial year	82,033	78,453

Note 23. Investments in associates (cont'd)

	Consolidated	
	2004	2003
	\$000	\$000
Results attributable to associates		
Profits from ordinary activities before income tax	11,608	15,991
Income tax expense	(3,371)	(4,885)
Profits from ordinary activities after income tax	<u>8,237</u>	<u>11,106</u>
Share of associates' expenditure commitments		
Capital commitments	478	841
Lease commitments	1,811	2,524
	<u>2,289</u>	<u>3,365</u>
Summary of the performance and financial position of associates		
The aggregate profits, assets and liabilities of associates are:		
Profits from ordinary activities after income tax expense	22,548	25,521
Assets	712,758	757,055
Liabilities	494,737	537,374

Note 24. Reconciliation of operating profit after income tax to net cash inflow from operating activities

	Consolidated	
	2004	2003
	\$000	\$000
1. Reconciliation of net cash provided by operating activities		
Operating profit after income tax	111,434	121
Depreciation	65,852	64,780
Amortisation	49,543	56,518
Unrealised foreign exchange losses	(1,176)	-
Deferred foreign currency losses expensed	-	479
(Gain) loss on sale of assets	1,116	(1,822)
Share of profits of associate not received as dividends	(606)	1,369
Change in operating assets and liabilities, net of effects from purchases and disposals of controlled entities		
Increase (decrease) in income tax payable	26,529	(51,687)
Decrease (increase) in tax assets	43,815	(46,641)
Increase (decrease) in deferred tax payable	(4,963)	(14,598)
Decrease (increase) in current receivables	(14,150)	10,267
Decrease (increase) in current inventories	(26,180)	24,592
Decrease (increase) in other current assets and equity accounted investments	(4,474)	2,431
Decrease (increase) in non current receivables	(11,899)	6,868
Increase (decrease) in payables	31,447	(19,585)
Increase (decrease) in other current liabilities and provisions	(27,897)	(14,256)
Increase (decrease) in non current liabilities and provisions	(13,729)	(2,185)
	<u>224,662</u>	<u>16,651</u>

Coal & Allied Industries Limited and controlled entities**Appendix 4E - Notes**

31 December 2004

Note 24. Reconciliation of operating profit after income tax to net cash inflow from operating activities (cont'd)

	Consolidated	
	2004	2003
	\$000	\$000
2. Financing Facilities		
Facilities available at balance date were:		
Credit standby arrangements		
Total bank overdrafts and working capital facility	130,000	100,939
Used at balance date	14,889	13,383
Unused at balance date	115,111	87,556
Loan facilities		
Total facilities	295,478	534,188
Used at balance date	264,645	411,993
Unused at balance date	30,833	122,195

The bank overdraft and working capital facilities may be drawn down at any time. The current interest rates on these facilities range between 1.00% and 5.20%. A daylight overdraft facility of \$55 million is unsecured, the remaining overdraft facilities are joint ventures facilities supported by guarantees provided by the joint venture participants. The working capital facility of \$75 million with Rio Tinto Finance Limited is unsecured.

Set-off of assets and liabilities

A controlled entity has established a legal right of set-off with Rio Tinto Finance Limited and certain deposits from the parent entity against an overdraft account to a limit of \$100 million. This set-off arrangement is provided on an ongoing basis.

	Consolidated	
	2004	2003
	\$000	\$000
3. Other cash flows from operating activities		
Coal handling fee receipts	2,299	541
Rental receipts	5,383	3,281
Management fee receipts	4,804	3,666
Coal compensation receipts	-	582
Coal handling services receipts	6,294	14,793
Other receipts	6,343	7,244
	25,123	30,107

Note 25. Earnings per share

	Consolidated	
	2004	2003
	Cents	Cents
Basic earnings per share	128.6	0.1
Diluted earnings per share	128.6	0.1
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	86,584,735	86,584,735

The earnings used to compute the ratio has been disclosed under Note 1(w).

Note 26. Segment information

Primary reporting – business segment

The consolidated entity operates, through a management services agreement with Rio Tinto Coal Australia Pty Limited, an integrated approach to managing and organising its operating companies. Its operating companies derive revenue solely from coal mining and related coal preparation.

Secondary reporting – geographic segment

The consolidated entity operates predominantly in the Hunter Valley of New South Wales, Australia.

Sales by geographic location	Consolidated	
	2004	2003
	\$000	\$000
Australia	36,176	23,337
Asia	884,933	781,987
Europe	85,789	73,542
Other	17,565	16,865
	1,024,463	895,731