

# COAL & ALLIED

*Managed by Rio Tinto Coal Australia*

## 2004 Half Year Results

### Coal & Allied impacted by stronger Australian dollar

#### SUMMARY

- Net profit after tax was \$7.2 million, similar to the same period last year.
- Net debt has reduced in Australian dollar terms by 2% in the first half of 2004 to \$443.8 million.
- No interim dividend will be paid on ordinary shares.

Commenting on the result, Coal & Allied's Managing Director Dr Grant Thorne said, "The underlying operational result reflects the continuing impact of the strong Australian dollar and the fact that for most of the reporting period Coal & Allied's selling price was locked in at 2003 settlement levels. After a difficult first half, Coal & Allied is only now beginning to enjoy the benefit of prevailing higher prices. The company is operating much more profitably, with realised US dollar prices expected to be approximately 25 per cent higher for the second half."

Coal & Allied's net profit after tax of \$7.2 million was positively affected by the recognition of inpit inventory for the first time and by depreciating mining properties over their estimated life. These two accounting adjustments had a positive effect of \$14.0 million on net profit.

"Half year production was similar to the same period in 2003, with production interruptions in the first quarter due to wet weather offset by operational improvements in the second quarter. This improvement was through higher equipment availability and utilisation at all mines, along with Mount Thorley/Warkworth coaling operations moving to a seven-day roster," Dr Thorne said.

"Following the successful introduction of the port allocation system, the number of ships queuing off the port of Newcastle has reduced from a peak of more than 50 in the first quarter to just 12 at 30 June, resulting in reductions in demurrage.

"The transition to Rio Tinto Coal Australia management has been successfully implemented with efficiencies and cost benefits starting to be realised. With these organisational and production improvements in place, we are optimistic about the second half of 2004 when we expect to see positive benefits for Coal & Allied flowing through from price increases and lower demurrage costs.

"However, earnings will continue to be hit by higher fuel prices and the increased New South Wales coal royalty which takes effect from 1 July 2004."

#### **Coal & Allied Industries Limited**

ABN 67 008 416 760

Level 3, West Tower, 410 Ann Street, Brisbane Qld 4000  
Ph + 61 7 3361 4200 Fax +61 7 3361 4370

## SUMMARY OF FINANCIAL PERFORMANCE

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

	Half-year ended 30 June 2004	2003	Change %
Sales revenue (\$ millions)	435.8	463.0	(6)
Net profit after tax (\$ millions)	7.2	7.2	-
Operating cash flow (\$ millions)	56.9	(15.8)	460
Dividends (cents per share)	Nil	Nil	-
Coal production <sup>1</sup> (million tonnes)	13.6	13.8	(1)
Coal shipments <sup>1</sup> (million tonnes)	13.9	13.8	(1)

<sup>1</sup> Production and shipments are on a 100% basis. Shipments exclude purchased coal.

### Restructure

Coal & Allied combined its corporate and service functions with those of Rio Tinto Coal Australia on 1 February 2004. Rio Tinto Coal Australia (100% Rio Tinto) is managing Rio Tinto Coal Australia's (formerly Pacific Coal's) existing assets, as well as Coal & Allied's assets in the Hunter Valley under a management services agreement. Both businesses are now managed from a single corporate office in Brisbane.

### Sales revenue

Sales revenue of \$435.8 million was down 6% compared with the first half of 2003, reflecting the stronger Australian dollar against the US dollar and a greater proportion of lower value domestic sales partly offset by improved prices for export coal.

### Production

Managed production of saleable coal was down by 200,000 tonnes to 13.6 million tonnes. Coal & Allied's share of this was 10.3 million tonnes of saleable coal.

Production interruptions in the first quarter due to wet weather were offset in the second quarter as a result of higher equipment availability and utilisation at the mines, along with Mount Thorley/Warkworth coaling operations moving to a seven-day roster. During the period, coal chain congestion and the port allocation system imposed constraints on the quantity of coal exported. This was offset by an increase in production for domestic sales.

### Dividends

As a result of the difficult financial conditions in the first half of 2004, Directors have decided no interim dividend for ordinary shares will be paid. A preference dividend of 1.75 cents per share, fully franked, will be paid on 18 August 2004. This is consistent with the first half of 2003.

### Cash flow

Net operating cash flow was \$56.9 million compared with (\$15.8 million) in 2003. The improvement was primarily attributable to the timing of tax payments in 2003, which related to 2002 earnings, and a tax refund in 2004, which related to 2003 payments. The underlying cash generated by the business was similar in both periods.

### Debt

Net debt was lower at \$443.8 million. Gearing (net debt to net debt + equity) was 35.4% at 30 June 2004, compared with 36.2% at 31 December 2003.

### **Capital expenditure**

Total capital expenditure for the half year was \$10.9 million compared with \$17.9 million for the same period last year. Expenditure was predominantly for equipment replacement and the upgrade of the Hunter Valley coal preparation plant.

### **Integration of Mt Thorley and Warkworth**

The joint venture participants of the Mt Thorley and Warkworth Joint Ventures agreed to an operational integration of the two mines. A road bridge linking the two operations was completed in January 2004 allowing more effective use of infrastructure.

### **Market conditions**

The upward trend in spot thermal coal prices, which developed in late 2003, continued throughout the first half of 2004 driven by continuing strong demand and uncertainty around Chinese supply. By the end of June the globalCOAL Newcastle spot index had reached its highest ever level of US\$63.63 per tonne compared with US\$36 per tonne at the end of December 2003. Although there has been a retreat from this peak, most major export coal supply chains are already operating at or near capacity. This would indicate there is unlikely to be a surge of new production in the short term which could weaken market sentiment. Contract prices also rose strongly during the half-year. However the company will significantly benefit from the increase in contract prices in the second half.

The introduction of the port allocation system at Newcastle in April has been a major contributor to the reduction in the number of vessels waiting to berth. At the end of March there were over 50 vessels waiting and by 30 June this had fallen to around 12, which reduces demurrage to negligible levels.

For further information contact:

#### **Media Enquiries:**

Paul White  
0417 224 920

Mitchell Innes  
0409 050 111

#### **Investor Enquiries:**

Susie Creswell  
03 9283 3639

[www.coalandalied.com.au](http://www.coalandalied.com.au)

## Coal & Allied Financial and Operating Statistics

Production and shipments	First half 2004 '000 tonnes	First half 2003 '000 tonnes
<b><u>Total shipments</u></b> <sup>1</sup>	<b><u>13,911</u></b>	<b><u>13,807</u></b>
<b><i>Total saleable production</i></b> <sup>2</sup>		
Hunter Valley Operations	<b>6,093</b>	6,104
Mount Thorley Operations	<b>1,622</b>	1,558
Bengalla	<b>2,600</b>	3,074
Warkworth	<b>3,295</b>	3,065
<b>Total</b>	<b>13,610</b>	13,801
<b><i>Coal &amp; Allied equity share of production</i></b>		
Hunter Valley Operations (100%)	<b>6,093</b>	6,104
Mount Thorley Operations (80%)	<b>1,298</b>	1,246
Bengalla (40%)	<b>1,040</b>	1,230
Warkworth (55.57%)	<b>1,831</b>	1,703
<b>Total</b>	<b>10,262</b>	10,283
<b><i>Shipments by product</i></b> <sup>1</sup>		
Export thermal	<b>9,479</b>	10,022
Domestic thermal	<b>2,048</b>	1,254
Coking	<b>2,384</b>	2,531
<b>Total</b>	<b>13,911</b>	13,807

### Financial

	\$ million	\$ million
Total assets	<b>1,830</b>	1,803
Capital expenditure and investments	<b>11</b>	18
Depreciation and amortisation	<b>59</b>	58
Employees (number)	<b>1,377</b>	1,534
Net debt to net debt + equity (%)	<b>35.4</b>	38.4
Earnings per share (cents)	<b>8.3c</b>	8.3c

<sup>1</sup> Shipments are on a 100% basis and exclude purchased coal.

<sup>2</sup> Production is on a 100% basis

# Appendix 4D

## 30 June 2004

### Half Yearly Report

Introduced 30/6/2003. Origin: Listing Rules 4.1, 4.2

Name of entity

Coal & Allied Industries Limited

ABN

008 416 760

Half year ended

30 June 2004

#### Results for announcement to the market.

				\$A'000
Revenues from ordinary activities  <i>Explanation</i> Revenue was down 7% compared with the first half of 2003, reflecting a stronger A\$ against the US\$ and a higher proportion of lower value domestic sales, partially offset by improved prices for export coal.	down	7%	to	\$455,956
Profit (loss) from ordinary activities after tax attributable to members  <i>Explanation</i> The profit after tax was impacted by a stronger A\$ against the US\$ and a higher proportion of lower value domestic sales, partially offset by improved prices for export coal.  On the 1 January 2004, Coal & Allied recognised inpit inventory for the first time which had a positive \$6,567,000 impact on earnings. The company also changed the estimated lives for mining properties which had a positive \$7,406,000 impact on earnings.	same	0%	to	\$7,167
Net profit (loss) for the period attributable to members  <i>Explanation</i> The profit after tax was impacted by a stronger A\$ against the US\$ and a higher proportion of lower value domestic sales, partially offset by improved prices for export coal.  On the 1 January 2004, Coal & Allied recognised inpit inventory for the first time which had a positive \$6,567,000 impact on earnings. The company also changed the estimated lives for mining properties which had a positive \$7,406,000 impact on earnings.	same	0%	to	\$7,167

# Appendix 4D

## 30 June 2004

### Half Yearly Report

Introduced 30/6/2003. Origin: Listing Rules 4.1, 4.2

<b>Dividends (distributions)</b>	Amount per security	Franked amount per security
Interim dividend		
<b>Ordinary Shares</b>	Nil	Nil
<b>Preference Shares</b>	1.75c	1.75c
Record date for determining entitlements to the dividend:	11 August 2004	
Date on which dividend is payable:	18 August 2004	
	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$9.35	\$9.35

#### Details of Associates

The Company holds 36.5% (2003: 36.5%) ownership in Port Waratah Coal Services Limited and profits from the Associate contributed \$4,686,000 (2003: \$1,783,000) of the net profits of the consolidated entity.

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

**Coal & Allied Industries Limited ABN 008 416 760****Half-year report – 30 June 2004**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2003 and any public announcements made by Coal & Allied Industries Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

## Directors' report

Your directors present their report on the consolidated entity consisting of Coal & Allied Industries Limited (Coal & Allied) and the entities it controlled at the end of, or during, the half-year ended 30 June 2004.

### Directors

The following persons were directors of Coal & Allied during the half-year and up to the date of this report:

B F Horwood (Chairman)

P S Chiaro

R B Davis

D J Docherty

G J Goldberg (resigned 1 February 2004)

C G Thorne (appointed 1 February 2004)

D I Scambler (resigned 31 May 2004)

B G Beeren (appointed 26 July 2004)

K Uehara

K Itadani (Alternate Director to K Uehara) (resigned 1 July 2004)

A M Kite (Alternate Director to P S Chiaro)

T Terada (Alternate Director to K Uehara) (appointed 1 July 2004)

### Review of operations

#### Summary of financial performance

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

	Half-year ended 30 June		Change
	2004	2003	%
Sales revenue (\$ millions)	435.8	463.0	(6)
Profit from ordinary activities before related income tax expense (\$ millions)	13.2	19.9	(34)
Income Tax expense (\$ millions)	6.0	12.7	(53)
Net profit after tax (\$ millions)	7.2	7.2	-
Less net profit attributable to outside equity interest	-	-	-
Net profit attributable to members (\$ millions)	7.2	7.2	-
Operating cash flow (\$ millions)	56.9	(15.8)	460
Dividends (cents per share)	-	-	-
Coal production <sup>1</sup> (million tonnes)	13.6	13.8	(1)
Coal shipments <sup>1</sup> (million tonnes)	13.9	13.8	1

<sup>1</sup> Production and shipments are on a 100% basis. Shipments exclude purchased coal.

#### Sales revenue

Sales revenue of \$435.8 million was down 6% compared with the first half of 2003, reflecting a stronger A\$ against the US\$ and a higher proportion of lower value domestic sales, partly offset by improved prices for export coal.

#### Production

Managed production of saleable coal was down by 200,000 tonnes to 13.6 million tonnes. Coal & Allied's share of this was 10.3 million tonnes of saleable coal, which was the same as 2003.

Production interruptions in the first quarter due to wet weather were offset in the second quarter as a result of higher equipment availability and utilisation at the mines, along with Mount Thorley/Warkworth coaling operations moving to a seven-day roster. During the period, coal chain congestion and the port allocation system imposed constraints on the quantity of coal exported. This was offset by an increase in production for domestic sales.

## Directors' report

### Dividends

Since the end of the half-year the directors have resolved not to pay an interim dividend per fully paid ordinary share and to pay 1.75 cents per fully paid preference share, fully franked based on tax paid at 30%. This compares with a 1.75 cents per preference share for the first half of 2003.

### Cash flow

Net operating cash was an inflow of \$56.9 million compared with an outflow of \$15.8 million in the first half of 2003. The improvement is primarily attributable to the timing of tax payments in 2003 which related to 2002 earnings and a tax refund in 2004 which related to 2003 payments. The underlying cash generated by the business was similar in both periods.

### Debt

Net debt was \$443.8 million. Gearing (net debt to net debt + equity) was 35.4% at 30 June 2004, compared with 36.2% at December 2003.

### Capital expenditure

Total capital expenditure for the first half of 2004 was \$10.9 million compared with \$17.9 million for the same period last year. Expenditure was predominantly for equipment replacement and the upgrade of the Hunter Valley Coal Preparation Plant.

### Market conditions

The upward trend in spot thermal coal prices which developed in late 2003 continued throughout the first half of 2004, driven by continuing strong demand and uncertainty around Chinese supply. By the end of June the global Coal Newcastle spot index had reached its highest ever level of US\$63.63/t compared to US\$36.00/t at the end of December last year. Although there has been a retreat from this peak during July, the fact that most major export coal supply chains are already operating at or near capacity would indicate there is unlikely to be a surge of new production in the short term to weaken market sentiment. Contract prices also rose strongly during the period.

The introduction of the port allocation system at Newcastle in April has been a major contributor to the reduction in the number of vessels waiting to berth. By the end of March there was in excess of 50 vessels and by June this had fallen to less than 10.

### Tax consolidation

Coal & Allied and its wholly owned subsidiaries, have formed a tax consolidated group with effect from 1 January 2003. The entities have also entered into a tax funding agreement. The primary function of the tax funding agreement is to:

- (a) impose a liability for each entity's share of the tax consolidated group's tax liability so as to reflect as closely as practicable the share of tax which each entity would have been liable to pay if it were not part of the tax consolidated group;
- (b) create a receivable/payable with Coal & Allied to reflect the deferred tax asset/deferred tax liability inherited by Coal & Allied from each wholly owned subsidiary, both on 1 January 2003 and over time; and
- (c) require Coal & Allied to compensate each wholly owned subsidiary for losses it would have recognised if it were not part of the tax consolidated group, with compensation provided at the time the losses are utilised by Coal & Allied.

Coal & Allied recognised the deferred tax balances of each wholly owned subsidiary as of 1 January 2003 and a receivable from / payable to the wholly owned subsidiary for identical amounts. Coal & Allied also re-measured the deferred tax balances of the wholly-owned subsidiaries, taking into account the impact of a planned resetting of tax values of the assets of its wholly-owned subsidiaries. The re-measurement resulted in a net reduction in the consolidated deferred tax liabilities of \$29,620,000 and deferred income tax benefit of \$29,620,000, which was recognised in the year ended 31 December 2003. The valuations of fixed assets have now been finalised. This has resulted in a decrease of \$1,585,000 to deferred tax asset and an increase in income tax expense. This was posted in the half year accounts.

### Change in accounting policy

On the 1 January 2004, Coal & Allied recognised in pit inventory for the first time which had a positive \$6,567,000 impact on earnings. The company also changed the estimated lives for mining properties which had a positive \$7,406,000 impact on earnings.

### Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

## Directors' report

### **Rounding of amounts to nearest thousand dollars**

Coal & Allied is a company 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 Directors' report and financial report. The amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless specifically stated to be otherwise.

This report is made in accordance with a resolution of the directors.

B F Horwood  
Director  
Brisbane, 26 July 2004



**PricewaterhouseCoopers**  
ABN 52 780 433 757

Waterfront Place  
1 Eagle Street  
GPO BOX 150  
BRSIBANE QLD 4000  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 7 3257 5000  
Facsimile +61 7 3257 5999

#### **Auditor's independence declaration**

As lead auditor for the review of Coal & Allied Industries Limited for the half year ended 30 June 2004, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

PricewaterhouseCoopers

Stephen R Snook  
Partner

Brisbane  
26 July 2004

# Consolidated statement of financial performance

For the half-year ended 30 June 2004

	Notes	Half-year	
		2004 \$'000	2003 \$'000
Revenue from operating activities		435,772	462,977
Revenue from outside the operating activities		20,184	25,536
<b>Revenues from ordinary activities</b> (excluding share of equity accounted net profits of associates)		<b>455,956</b>	488,513
Changes in inventories of finished goods and work in progress		7,504	(5,200)
Raw materials and consumables used		(110,153)	(95,555)
Selling and distribution expenses		(102,874)	(105,249)
Employee benefit expenses		(93,286)	(104,354)
Depreciation and amortisation expenses		(58,841)	(58,315)
Borrowing expenses		(3,153)	(5,780)
Administration and other mining expenses		(86,676)	(95,963)
Share of net profits of associates accounted for using the equity method		4,686	1,783
<b>Profit from ordinary activities before related income tax expense</b>		<b>13,163</b>	19,880
Income tax expense		(5,996)	(12,696)
<b>Profit from ordinary activities after related income tax expense</b>		<b>7,167</b>	7,184
Net profit attributable to outside equity interest		-	-
<b>Net profit attributable to members of COAL &amp; ALLIED INDUSTRIES LIMITED</b>		<b>7,167</b>	7,184
Adjustment resulting from change in accounting policy for employee entitlements		-	(1,936)
<b>Total revenues, expenses and valuation adjustments attributable to members of COAL &amp; ALLIED INDUSTRIES LIMITED and recognised directly in equity</b>		<b>-</b>	(1,936)
<b>Total changes in equity attributable to members of COAL &amp; ALLIED INDUSTRIES LIMITED other than those resulting from transactions with owners as owners</b>		<b>7,167</b>	5,248
Basic earnings per share (cents per share)		8.3	8.3
Diluted earnings per share (cents per share)		8.3	8.3

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

# Consolidated statement of financial position

As at 30 June 2004

	Notes	AS AT 30 JUNE 2004 \$'000	AS AT 31 DECEMBER 2003 \$'000	AS AT 30 JUNE 2003 \$'000
<b>Current assets</b>				
Cash assets	4	56,679	17,289	27,248
Receivables		92,707	77,565	56,674
Inventories		54,376	46,059	68,734
Income tax recoverable		11,795	29,124	-
Other assets		9,405	901	1,706
<b>Total current assets</b>		<b>224,962</b>	<b>170,938</b>	<b>154,362</b>
<b>Non-current assets</b>				
Receivables		40,466	27,282	34,946
Investments accounted for using the equity method		82,930	78,453	77,599
Other financial assets		858	2,007	2,007
Property, plant and equipment		1,294,951	1,336,668	1,367,160
Deferred tax assets		74,824	76,578	58,359
Other assets		106,124	112,993	108,985
<b>Total non-current assets</b>		<b>1,600,153</b>	<b>1,633,981</b>	<b>1,649,056</b>
<b>Total assets</b>		<b>1,825,115</b>	<b>1,804,919</b>	<b>1,803,418</b>
<b>Current liabilities</b>				
Payables		128,054	95,218	75,561
Interest bearing liabilities		113,477	110,580	114,560
Current tax liabilities		-	-	36,759
Provisions		54,763	71,269	44,301
Other liabilities		31,213	38,866	28,844
<b>Total current liabilities</b>		<b>327,507</b>	<b>315,933</b>	<b>300,025</b>
<b>Non-current liabilities</b>				
Payables		16,651	18,904	15,531
Interest bearing liabilities		387,009	361,960	416,583
Non-current tax liabilities		56,344	56,344	-
Deferred tax liabilities		60,014	61,887	87,182
Provisions		125,333	108,324	113,480
Other liabilities		42,902	79,379	61,222
<b>Total non-current liabilities</b>		<b>688,253</b>	<b>686,798</b>	<b>693,998</b>
<b>Total liabilities</b>		<b>1,015,760</b>	<b>1,002,731</b>	<b>994,023</b>
<b>Net assets</b>		<b>809,355</b>	<b>802,188</b>	<b>809,395</b>
<b>Equity</b>				
Parent entity interest in equity				
Contributed equity		441,757	441,757	441,757
Reserves		7,385	7,385	7,385
Retained profits		358,475	351,308	358,515
<b>Total parent entity interest in equity</b>		<b>807,617</b>	<b>800,450</b>	<b>807,657</b>
Total outside equity interest in controlled entities		1,738	1,738	1,738
<b>Total equity</b>		<b>809,355</b>	<b>802,188</b>	<b>809,395</b>

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

# Consolidated statement of cash flows

For the half-year ended 30 June 2004

	Notes	Half-year	
		2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of Goods and Services Tax)		436,409	481,019
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(406,692)	(436,624)
Dividends received		4,387	3,189
Interest received		410	186
Borrowing costs		(7,767)	(8,226)
Income taxes refunded / (paid)		10,692	(71,732)
Other	4	19,498	16,352
<b>Net cash flows from / (used in) operating activities</b>		<b>56,937</b>	<b>(15,836)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(10,986)	(17,898)
Proceeds from the sale of property, plant and equipment		363	4,138
Proceeds from sale of operations		-	-
<b>Net cash flows from / (used in) investing activities</b>		<b>(10,623)</b>	<b>(13,760)</b>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities		(2,207)	(2,936)
Proceeds from borrowings		-	86,457
Repayments of borrowings		-	-
Dividends paid		(33)	(34,667)
<b>Net cash flows from / (used in) financing activities</b>		<b>(2,240)</b>	<b>48,854</b>
<b>Net increase (decrease) in cash held</b>		<b>44,074</b>	<b>19,258</b>
Cash at beginning of the reporting period		6,948	6,239
<b>Cash at the end of the reporting period</b>	4	<b>51,022</b>	<b>25,497</b>

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

# Notes to the half-year financial statements

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## For the half-year ended 30 June 2004

### 1. Basis of preparation of the half-year financial report

This general purpose financial report for the interim half-year reporting period ended 30 June 2004 has been prepared in accordance with Accounting Standard AASB 1029 Interim Financial Reporting, other mandatory professional reporting requirements (Urgent Issues Group Consensus View), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2003 and any public announcements made by Coal & Allied during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

#### **Change in accounting policy**

##### *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 half year was a decrease in amortisation expense of \$7,046,000.

##### *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 policy was adopted to better match costs with revenue. The effect of the changes of policy as of 1 January 2004 was an increase in profit before tax of \$9,381,000 and to increase inventories.

#### **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 adoption of Australian Equivalents to IFRS will be first reflected in the Group's financial statements for the half-year ending 30 June 2005 and the year ending 31 December 2005.

The Group has established a project team to manage the transition to IFRS reporting, 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. To date the project team has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1 First-time Adoption of Australian International Financial Reporting Pronouncements. Some of these choices are still being analysed to determine the most appropriate accounting policy for the Group.

## Notes to the half-year financial statements

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### International Financial Reporting Standards (IFRS) (continued)

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

(a) *Income tax*

Under the Australian equivalent to IAS 12 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 change will be to recognise a deferred tax liability on the fair value of mining rights acquired in prior years.

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

Under the Australian equivalent to IAS 37 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 costs are provided for on an incremental basis over the remaining mine life. Restoration costs have been estimated on the basis of current, undiscounted costs. Changes in estimates are dealt with on a prospective basis.

(c) *Financial instruments*

Under the Australian equivalent to IAS 39 Financial Instruments: Recognition and Measurement there may be impacts as a result of foreign exchange contracts 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. Currently, the costs or gains arising under contracts together with any realised / unrealised gains or losses from remeasurement are included in assets or liabilities as deferred losses or deferred gains.

(d) *Interests in joint ventures*

Under the Australian equivalent to IAS 31 Financial Reporting of Interests in Joint Ventures an interest in a jointly controlled entity is recognised using the equity method. The interest is initially recorded at cost and adjusted thereafter for the post-acquisition change in the company's share of net assets of the jointly controlled entity. The profit or loss of the company includes the company's share of the profit or loss of the jointly controlled entity.

This will result in a change to the current accounting policy, under which interests in jointly controlled entities are brought to account by consolidating the company's share of the assets and liabilities and the profit or loss.

## Notes to the half-year financial statements

	Half-year	
	2004 \$'000	2003 \$'000
<b>2. Dividends paid or provided for on shares</b>		
<b>Dividends paid during the half-year</b>		
<b>Ordinary</b>		
Final dividend (40 cents per share) paid, fully franked at a tax rate of 30%	-	34,634
<b>Preference</b>		
Final dividend paid, fully franked	<b>33</b>	33
	<b>33</b>	34,667
Since the end of the half-year the directors have resolved not to pay an interim dividend (2003 – Nil) per fully paid ordinary share and to pay 1.75 cents (2003 - 1.75 cents) per fully paid preference share, fully franked based on tax paid at 30%. The aggregate amount of the proposed interim dividend expected to be paid on 18 August 2004 (21 August 2003) out of retained profits at the end of the half-year, but not recognised as a liability is:	<b>33</b>	33

### 3. Segment Information

#### Primary reporting - business segment

The consolidated entity operates an integrated approach to managing and organising its operating companies. Its operating companies derive revenue from sale of coal, which arises from the mining and preparation of coal.

#### Secondary reporting - geographic segment

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

	Half-year	
	2004 \$'000	2003 \$'000
<b>Sales by geographic area</b>		
Australia	<b>33,031</b>	23,983
North America	<b>7,385</b>	-
Europe	<b>27,727</b>	27,925
Asia	<b>367,629</b>	411,069
	<b>435,772</b>	462,977

## Notes to the half-year financial statements

	Half-year	
	2004 \$'000	2003 \$'000
<b>4. Statement of Cashflows</b>		
<b>Reconciliation of Cash</b>		
Cash balance comprises:		
Cash assets	56,679	27,248
Overdraft	(5,657)	(1,751)
Closing cash balance	<b>51,022</b>	<b>25,497</b>
<b>Other Cash flows from operating activities</b>		
Coal handling services	2,800	7,309
Rental receipts	3,399	1,511
Management fees	2,077	1,940
Sea Freight	6,847	1,845
Coal compensation receipts	-	582
Others	4,375	3,165
	<b>19,498</b>	<b>16,352</b>

## Notes to the half-year financial statements

5. Contingent Liabilities	Half-year	
	2004 \$'000	2003 \$'000
<p><b>Bank Guarantees for Restoration Obligations</b> The consolidated entity has a program of on-going restoration as part of its mining operations. Guarantees have been provided to the Department of Mineral Resources of NSW in respect of the cost of restoration of certain leasehold properties, representing guarantees required by statute, which have been provided to the government. A provision for mine site restoration and closure costs of \$72,990,000 (2003: \$66,807,000) has been raised with regard to this obligation.</p> <p>Gross bank guarantees for restoration obligations</p>	102,968	68,372
<p><b>Bank Guarantees for Coal Supply Obligations</b> The consolidated entity had entered into agreements with Macquarie Generation, Delta Electricity, TNB Fuel Services SDN BHD and Taiwan Power Company.</p> <p>Gross bank guarantee for coal supply obligations</p>	11,378	1,542
<p><b>Bank Guarantees as Security for Loans</b> The consolidated entity has entered into an agreement with Westpac Banking Corporation for the repayment of a loan from the Joint Coal Board.</p>	1,131	1,131
<p><b>Bank Guarantees for Other Miscellaneous Obligations</b> The consolidated entity has entered into agreements with The Minister for Lands and Water Conservation, Prudential Nominees Pty Ltd, Newcastle City Council, Singleton Shire Council and other entities.</p>	523	453
<p><b>Deed of Cross Guarantees</b> Under the terms of a deed of cross guarantee dated 9 May 1992 (as amended), Coal &amp; Allied and each controlled entity within the Closed Group has guaranteed to meet any shortfall which might arise on the winding up of controlled entities which are party to the deed.</p>	-	-
<p><b>Other</b> No material losses are anticipated in respect of any of the above contingent liabilities.</p> <p>There are a number of legal claims arising from the normal course of business which are currently outstanding against the company. No material loss to the company is expected to result from these claims.</p>		

## Directors' declaration

The directors declare that the financial statements and notes set out on pages 6 to 13:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the half year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that Coal & Allied will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

B F Horwood  
Director

Brisbane, 26 July 2004

## Independent review report to the members of

### Coal & Allied Industries Limited

#### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Coal & Allied Industries Limited:

- does not give a true and fair view of the financial position of the Coal & Allied Industries Limited Group (defined below) at 30 June 2004 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia.

This statement must be read in conjunction with the rest of our review report.

#### Scope

##### The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Coal & Allied Industries Group (the consolidated entity), for the half-year ended 30 June 2004. The consolidated entity comprises both Coal & Allied Industries Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

##### Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities & Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

When this report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies within the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

**Independence**

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

PricewaterhouseCoopers

Stephen R Snook  
Partner

Brisbane  
26 July 2004