



MEDIA RELEASE

27 July 2010

2010 Half Year Results

Coal & Allied prepares to lift its mines to full capacity

SUMMARY

- Revenue for H1 2010 was \$929 million, down 26 per cent (June 2009: \$1,250 million)
- Profit after tax for H1 2010 was \$498 million, up 54 per cent (June 2009: \$324 million)
- Profit after tax excluding divestments for H1 2010 was \$161 million, down 50 per cent (June 2009: \$324 million)
- Interim ordinary dividend of 450 cents per share fully franked (June 2009: 160 cents)

Commenting on the company's performance, Coal & Allied's Managing Director Bill Champion said; "Coal & Allied's production in the first half of 2010 was unfavourably affected by wet weather and rising overburden strip ratios across our mines, however our strategy to focus on higher priced semi soft coking coal led to strong semi soft coking coal production volumes."

Coal & Allied's revenue was down 25.7 per cent compared with the first half of 2009.

Coal & Allied's profit after tax of \$498 million benefitted from the gain on the divestment of two undeveloped Gunnedah Basin coal projects. Excluding this divestment gain, profit after tax in the first six months of the year was \$161 million. The result is lower than the first half of 2009 due to adverse exchange rate movements, lower coal prices and increased production costs, largely due to rising overburden strip ratios across the operations.

Mr Champion said Coal & Allied's share of production in the first half of 2010 increased by two per cent compared with the same time last year.

"The overall increase in saleable production was assisted by the progressive commissioning of new heavy mobile equipment at Mount Thorley Warkworth, and through mining a more productive coal seam at Bengalla," Mr Champion said.

"Semi soft coking coal sales production increased by 87 per cent, contributing 26 per cent of Coal & Allied sales volumes, compared with 13 per cent in the first half of 2009. While the semi soft coking coal production process reduced overall yield, this was more than offset by the increased margins on sales.

"We continue to expect a strong second half in 2010 and are targeting full year production of 27 million tonnes (100 per cent), with a higher proportion of thermal coal in the mix

Note: All dollars mentioned in the release are Australian dollars, unless otherwise stated.

relative to the first half. Second half semi soft coking coal production tonnage is likely to be slightly lower than that achieved in the first half.

“Coal & Allied is in the process of accelerating waste removal to lift its mine production to match plant capacity. We are progressively commissioning new heavy mobile equipment and increasing the number of operators and maintainers for our additional waste stripping requirements. These actions have resulted in additional cost pressures for the business. Railing delays and higher than anticipated ship queues in the first half of 2010 contributed to a build up of inventories, though this additional stock will be depleted early in the second half of the year.”

The company declared an interim ordinary dividend of 450 cents per share fully franked which is a 281 per cent increase from the prior year (2009: 160 cents per share). This significant increase is due to the receipt of proceeds from divestments during the period.

Mr Champion said Coal & Allied is encouraged by the Federal Government’s Minerals Resource Rent Tax (MRRT) proposal, and looks forward to further discussions with government providing greater clarity around the detailed design and application of the tax.

SUMMARY OF PERFORMANCE

Coal & Allied’s results for the first half 2010 are shown below, together with comparative results for the first half 2009.

	Half Year to 30 June		Change %
	2010	2009	
Revenue (\$ million)	929	1,250	(26)
Profit before tax (\$ million)	699	459	52
Profit after tax (\$ million)	498	324	54
Profit after tax excluding divestments(\$ million)	161	324	(50)
Operating cash flow (\$ million)	79	379	(79)
Interim dividend (cents per share)	450	160	281
Coal production ¹ (million tonnes)	12.0	11.5	4
Coal shipments ¹ (million tonnes)	11.2	11.4	(2)

¹ Production and shipments are shown on a 100% basis. Shipments exclude purchased coal.

Profit

Profit after tax, excluding divestments, for the 2010 half year of \$161 million is a 50 per cent decrease from the corresponding period in 2009 of \$324 million. This was due to decreased revenue caused by the detrimental effect of the stronger Australian dollar against the US dollar and also a lower realised US dollar price for both thermal and semi soft coking coal. An increase in production costs, largely due to rising strip ratios, has also decreased earnings. Partially compensating for these impacts is an improvement in sales mix, with high margin semi soft coking coal contributing a larger proportion of sales volumes than in first half 2009.

Sales revenue

Sales revenue of \$910 million for the half year was 25 per cent lower than for the same period in 2009. This was mainly due to the stronger Australian dollar, which rose 25 per cent against the US dollar compared with the first half of 2009, averaging 89 cents for the first six months of 2010 compared with 71 cents in the prior year. Lower US dollar coal prices for the 2010 half year also reduced revenue, with average thermal coal prices 7 per cent lower and average semi soft prices 25 per cent lower. However this impact has been

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offset by an improvement in sales mix, with semi soft sales volumes increasing by 87 per cent.

Production

Coal & Allied's share of production for the 2010 half year was two per cent higher than the same period in 2009. At Mount Thorley Warkworth, new heavy mobile equipment has been progressively commissioned through 2010 to date resulting in higher waste movement and coal production. Production at Bengalla has improved as a result of mining in a more productive coal seam. Offsetting these improvements, production at all operations was adversely affected by periods of wet weather, as well as an increased strip ratio at Hunter Valley Operations and Mount Thorley Warkworth.

The agreement of the 2010/11 benchmark Japanese fiscal year prices for both thermal and semi soft coking coal saw significant increases, in particular for semi soft coking coal, Coal & Allied has therefore focussed on maximising semi soft coking coal production where possible. This focus on semi-soft coking coal production results in some overall yield loss through the coal production process, however this is more than offset by the increased margins achieved.

Costs

Whilst attributable saleable coal production for the 2010 half year increased by two per cent from the corresponding period in 2009, average stripping ratios have increased by 17 per cent, particularly evident at Mount Thorley Warkworth and Hunter Valley Operations. Stripping ratios are expected to remain at elevated levels for the second half of 2010 and into 2011.

The additional waste stripping requirements have required addition of heavy mobile equipment, which in turn has led to an increase in labour and other mining costs.

Mine production costs have increased by \$22 million in the first half of 2010 compared with the first half of 2009, largely due to the increase in strip ratio. The signing of new three year labour agreements at the Hunter Valley Operations and Mount Thorley Warkworth sites have also placed upward pressure on costs.

Selling and distribution costs decreased by \$10 million in the first half of 2010 compared with the same period in 2009, primarily due to lower royalties in line with revenue. This was partially offset by a \$6 million increase in demurrage following an increase in the average ship queue over the six month period.

Income tax

Coal & Allied recognised income tax expense in the 2010 half year of \$201 million, an increase of \$65 million from the first half of 2009. This resulted in an estimated effective income tax rate for the 2010 half year of 29.4 per cent (2009: 30.1 per cent).

Royalties

In addition, royalties paid to the NSW Government amounted to \$62 million. This reduced from the \$80 million paid in the 2009 half year in line with the decrease in coal sales revenue.

Cash flow

Operating cash flow of \$79 million was lower in the first half of 2010 (June 2009: \$379 million inflow) due principally to lower sales revenue. Tax payments for the first half of 2010 totalled \$313 million, including a final 2009 tax instalment of \$79 million and \$127

million tax paid on divestments. Capital expenditure for the half year was \$90 million (2009: \$88 million) primarily for replacement of heavy mobile equipment.

Divestment of the Maules Creek and Vickery Coal Projects contributed net cash of \$384 million, comprising proceeds from sale of \$511 million less the payment in June of applicable income tax. There was a net increase in cash for the half year of \$49 million after payment of dividends and debt reduction.

Debt

Net cash of \$360 million at 30 June 2010 was \$67 million higher than at 31 December 2009 as a result of the divestment of the Maules Creek and Vickery Coal Projects. External borrowings have decreased from \$61 million at 31 December 2009 to \$36 million at 30 June 2010.

Dividends

Directors declared an interim dividend of 450 cents per share, fully franked at 30 per cent (June 2009: 160 cents).

The interim dividend will be paid on 27 August 2010 to shareholders who are on the share register at the close of business on 13 August 2010.

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