

Coal & Allied Industries Limited ABN 67 008 416 760
Financial Report – 31 December 2003

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Coal & Allied Industries Limited and controlled entities Company Particulars

Coal & Allied Industries Limited

ABN 67 008 416 760

Auditors

PricewaterhouseCoopers
Chartered Accountants

Issued Capital

\$441,756,565

Date and Place of Incorporation

2 May 1960
Australian Capital Territory

Registered Office

Lemington Road
Ravensworth via Singleton
NSW 2330
(02) 6570 0300

Share Registry

Computershare Investor Services Pty Limited
60 Carrington Street
Sydney NSW 2000
(02) 8234 5000

Company Secretaries

M J Horton
G J Taggart

Stock Exchange Listings

Coal & Allied Industries Limited shares are listed on
the Australian Stock Exchange

www.coalandallied.com

Coal & Allied Industries Limited and controlled entities Board of Directors

Directors

B F Horwood (*Chairman*)
P S Chiaro
R B Davis
D J Docherty
D I Scambler
C G Thorne
K Uehara

Alternate Directors

K Itadani (for K Uehara)
A M Kite (for P S Chiaro)

Company Secretaries

M J Horton
G J Taggart

Board Audit Committee

D J Docherty (*Chairman*)
R B Davis
D I Scambler

Management

C G Thorne *Managing Director*
R C Hammond *Chief Operating Officer*

N A Barlow *General Manager – Technical Services*
G Gageler *General Manager – Bengalla Mine*
R M Gordon *General Manager – Health, Safety and Environment*
J P Hoare *General Manager – Human Resources*
C McRae *General Manager – Corporate Development*
N D Pearsall *General Manager – External Affairs*
I H Poole *Controller*
C Salisbury *General Manager – Mount Thorley Warkworth Operations*
N Senapati *General Manager – Hunter Valley Operations*
G J Taggart *Chief Financial Officer & Company Secretary*
M F Trevan *General Manager – Marketing*

Coal & Allied Industries Limited and controlled entities Directors' Report

For the year ended 31 December 2003

Your Directors present their report made in accordance with a resolution of the Directors with respect to the result of the year ended 31 December 2003 and the state of affairs of Coal & Allied Industries Limited ("Coal & Allied") and its controlled entities ("Group") at 31 December 2003.

DIRECTORS

The following persons were Directors of Coal & Allied during the whole of the year and up to the date of this report:

B F Horwood (Chairman)

P S Chiaro (appointed from 22 September 2003)

G H Boyce (resigned 2 September 2003)

R B Davis

D J Docherty

D I Scambler

C G Thorne (appointed 1 February 2004)

G J Goldberg (resigned 1 February 2004)

K Uehara

K Itadani (alternate Director to K Uehara)

A T Harding (resigned 31 March 2003 alternate Director to G H Boyce)

A M Kite (appointed 31 March 2003 and resigned 2 September 2003 alternate Director to G H Boyce, appointed 24 September 2003 alternate Director to P S Chiaro)

GROUP RESULT

Consolidated operating profit after income tax for the year ended 31 December 2003 was \$0.1 million, compared with an operating profit after tax of \$159.7 million for the previous year.

Earnings per ordinary share for the period were 0.1 cent (2002: 184.4 cents).

PRINCIPAL ACTIVITIES

The principal continuing activities of the entities in the Group during the course of the year ended 31 December 2003 were coal mining and related coal preparation and marketing of coal produced by the Group.

REVIEW OF OPERATIONS

The safety performance of the Group was maintained during the year due to the commitment of all employees. There will be continued strong emphasis on safety and safety programs to achieve our goal of zero injuries.

Total production (Coal & Allied's share of respective joint ventures) was 20.3 million tonnes of saleable coal (23.9 million tonnes in 2002). Managed coal shipments for the full year were 27.9 million tonnes, a decrease of 3.6 million tonnes compared with the same period last year. A stronger Australian currency, lower prices and decreased volumes have contributed to the significant decrease in revenue generated from sales.

Coal & Allied generated a positive operating cash flow of \$16.7 million during the year, compared with \$269.3 million for the previous year. Details are set out in the financial statements.

Capital expenditure for the year amounted to \$55.2 million, which was a decrease on the previous year's expenditure of \$119.4 million.

The net debt position at 31 December 2003 was \$455.3 million (2002: net debt \$512.1 million).

INVESTMENTS

Coal & Allied holds a 36.5% (2002: 36.5%) shareholding in Port Waratah Coal Services Limited ("PWCS"), which owns and operates the Carrington and Kooragang coal terminals.

PWCS shipped 74.0 million tonnes of Hunter Valley coal during 2003 (2002: 70.5 million tonnes). Unfranked dividends of \$8.4 million were received from PWCS during the year (2002: \$6.9 million).

DIVIDENDS

The following dividends have been paid or declared by Coal & Allied since the end of the previous financial year:

Final Paid February 2003

	<u>\$000</u>
40 cents per ordinary share	34,634
1.75 cents per preference share	33

Interim Paid August 2003

	<u>\$000</u>
1.75 cents per preference share	33

Coal & Allied Industries Limited and controlled entities Directors' Report

STATE OF AFFAIRS

Other than matters reported in this Directors' Report, there were no significant changes in the state of affairs of the Group during the year ended 31 December 2003.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

In December 2003, Coal & Allied agrees with Rio Tinto Limited to combine Coal & Allied's corporate and service functions with those of Rio Tinto Coal Australia Pty Limited ("RTCA") (previously known as Pacific Coal Pty Limited) from 1 February 2004. RTCA will be responsible to the Coal & Allied Board for the day-to-day management of the coal operations of Coal & Allied, under a management services agreement. Both businesses will be managed together from a single corporate office in Brisbane.

LIKELY DEVELOPMENTS

Although a final decision has not been taken, it is highly probable that the parent entity, Coal & Allied Industries Limited and its wholly owned subsidiaries, will be forming a tax consolidated group with effect from 1 January 2003. The entities also intend to enter into a tax funding agreement. Although details of this agreement are yet to be finalised it has been agreed that the primary function of the tax funding agreement will be 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 Industries Limited to reflect the deferred tax asset/deferred tax liability inherited by Coal & Allied Industries Limited from each wholly owned subsidiary, both on 1 January 2003 and over time; and
- (c) require Coal & Allied Industries Limited 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 Industries Limited.

This means Coal & Allied Industries Limited has 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 Industries Limited has 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 additional deferred income tax benefit of \$29,620,000, which has been recognised in the year ended 31 December 2003. No further material impact is expected on the consolidated assets and liabilities and results.

ENVIRONMENTAL REGULATION

Coal & Allied is subject to significant environmental regulation in respect of its mining operations in New South Wales. As part of Coal & Allied's internal reporting processes, operating management is required to report the number of environmental incidents occurring and what actions have been taken to resolve such incidents, regardless of whether they may infringe any regulations. The reporting categories adopted by Coal & Allied are the Rio Tinto Group classifications.

The reporting categories adopted are given below with examples that would constitute such an incident - these are examples only for the purposes of classification; they do not imply that such incidents have occurred in Coal & Allied's operations.

I - procedural non-compliance with no environmental impact (e.g. late submission of a report, incorrectly completed forms, incorrect monitoring procedures);

II - incidents with low potential for impact on the environment (e.g. a contained spill, non compliance with an air or water emission standard, minor unauthorised clearing of vegetation);

III - incidents of non-compliance with the potential for moderate environmental impact (e.g. restricted contamination of ground water, repeated non-compliance with an air or water emission standard, unauthorised clearing of a sensitive natural habitat);

IV - incidents which have, or potentially have, high environmental impact (e.g. breach of a tailings dam, widespread contamination of ground water).

Coal & Allied Industries Limited and controlled entities Directors' Report

Operating management has reported the following incidents for the reporting period:

	Category			
	I	II	III	IV
2003	119	17	0	0
2002	58	8	1	0

Category 1 incidents continue to increase significantly. This is attributable to continued increasing employee awareness of the need to report minor environmental incidents or hazards.

Category II incidents also increased in 2003, due in part to a number of uncontrollable overflows following atypical high intensity rainfall events.

The reporting and resolution of Category I and II incidents has resulted in zero Category III and IV incidents in 2003.

During 2003, the NSW Environment Protection Authority issued two Penalty Infringement Notices of \$1,500 each. One of these resulted from a blast overpressure exceedance at Mount Thorley Operations, and the other related to the uncontrolled discharge of water from Hunter Valley Operations.

INSURANCE OF DIRECTORS

During the financial year, Coal & Allied paid a premium for an insurance policy insuring any past or present director, secretary, executive officer or employee of Coal & Allied or its subsidiaries including directors against certain liabilities. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

ROUNDING

Coal & Allied is a company of kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment 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.

Signed at Melbourne, this 4th day of March 2004 in accordance with a resolution of the Directors.

B F Horwood
Chairman.

Coal & Allied Industries Limited and controlled entities Corporate Governance Statement

The Board of Coal & Allied is committed to high standards of corporate governance. This statement outlines the main corporate governance practices that were in place during the financial year.

The Board ensures that Coal & Allied is managed in a way that meets the objectives of all its shareholders, while paying proper regard to the interests of employees and external stakeholders. The recommendations of the ASX Corporate Governance Council ("Council") on corporate governance practices were considered by the Board. The Directors concluded that the corporate governance structures and processes in place at Coal & Allied are substantially in compliance with the Council's recommendations. In some areas, minor changes were required which have been concluded or are advanced in implementation.

The Company's Corporate Governance section on its website (www.coalandallied.com) sets out the information required by the Council's recommendations.

BOARD RESPONSIBILITIES & CHARTER

The Board is responsible for ensuring that its composition is sufficient to protect the interests of all stakeholders. The Directors will discharge their duties in the best interests of all shareholders. The composition of the Board recognises the majority ownership position of RTL and it is appropriate that Directors associated with the controlling shareholder constitute a majority of Directors on the Board. The Board is aware that related party transactions must be considered carefully. Consequently, related party transactions are considered by the independent Directors on the Audit Committee. Directors associated with the relevant related party do not vote on transactions involving the related party.

In carrying out its responsibilities and powers, the Board at all times recognises its over-riding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Company's shareholders and employees and the community. The Board has adopted a Charter that clearly sets out the roles and responsibilities of the Board. The Charter underpins the strategic guidance and effective management oversight provided by the Board. The Charter is available on Coal & Allied's website at www.coalandallied.com.

The Board will review the Charter on an annual basis.

The Directors approve strategy and business plans and monitor the performance of the Company against these plans. The Directors also monitor compliance with policies prescribed by the Board in areas such as health and safety, environment, business ethics, internal control and risk management. These policies are designed to ensure that Coal & Allied meets or exceeds the regulatory requirements governing its operations.

The Board Charter defines the division of responsibilities by formal delegation and a system of Board reserved powers.

The Company's formalisation and disclosure of the functions reserved to the Board and those delegates to management are consistent with recommendation 1.1 of the Council.

BOARD COMPOSITION

At the date of this report the Board of Directors of Coal & Allied consists of seven Directors, six of whom are non-executive. The Chairman is Mr Horwood, who will resign as an executive of RTL as of 19 March 2004. Mr Goldberg was an executive director during the reporting period and held the position of Managing Director. As of 1st February 2004 Dr Grant Thorne (an executive of RTL) replaced Mr Goldberg as Managing Director. It is consistent with recommendation 2.3 of the Council that the Managing Director and Chairman be different people. Another non-executive Director, Mr Chiaro is an executive of RTL. RTL holds a 75.71% interest in the share capital of Coal & Allied. Mr Uehara is an executive of Mitsubishi Corporation that holds a 10.2% interest in Coal & Allied. Messrs Davis and Docherty are independent non-executive Directors. Mr Scambler was an executive of RTL until he retired in September 2000.

Details of the Directors, their qualifications and experience are set out on page 13.

Qualification for Board membership is related to the mix of skills and knowledge that the Board considers will best serve the interests of Coal & Allied and all of its shareholders. Decisions relating to appointment of Directors are made by the full Board. Directors appointed by the Board are required by Coal & Allied's Constitution to submit themselves for election by shareholders at the Annual General Meeting following their appointment. There is no share ownership qualification for appointment as a Director. The Board has not established a nominations committee. Rio Tinto nominates candidates for Board consideration. The Board recognises that this is not compliant with recommendation 2.4 of the Council, but considers that existing practices are satisfactory.

Non-executive Directors are subject to retirement by rotation every three years in accordance with Coal & Allied's Constitution, but may offer themselves for re-election.

Coal & Allied Industries Limited and controlled entities Corporate Governance Statement

INDEPENDENCE

The Board of Directors does not consist of a majority of “independent” Directors. This is not in compliance with recommendation 2.1 of the Council. As stated above the composition of the Board recognises RTL’s majority shareholding. The Directors are required to, and do, act in accordance with their statutory duties of good faith and for a proper purpose. All related party transactions, including those with RTL have been determined to be in the interests of the Company. For example, the Board’s decision to approve a Management Services Agreement with RTCA (a wholly-owned subsidiary of RTL) was made only after the potential transaction was considered by a committee of independent directors who had available to them independent professional advice.

The Chairman, Mr Brian Horwood, is a RTL executive. Whilst this is not compliant with recommendation 2.2 of the Council, the Board considers that RTL’s 75.71% shareholding warrants this appointment. As noted previously, Mr Horwood will resign from RTL on 19 March 2004.

AUDIT COMMITTEE

The Audit Committee is appointed by the Board and comprises three non-executive Directors of whom two are required to be independent. Two Directors constitutes a quorum. The present members of the Audit Committee are Mr Docherty (Chairman), Mr Davis and Mr Scambler.

The Audit Committee Charter sets out the role and terms of reference of the Audit Committee and is reviewed at least biennially.

The Audit Committee provides a formal structure for reviewing Coal & Allied’s financial statements, accounting policies, control systems, risk management practices and liaising with the external and internal auditors.

The Audit Committee advises the Board of any matters that might have a significant impact on the financial condition of Coal & Allied and has the authority to investigate any matters within the terms of reference, having full access to the information and resources of Coal & Allied to fulfil its function. Related party transactions are considered by the Audit Committee and, where appropriate, the independent members of the Audit Committee only.

The Audit Committee reviews compliance with the Corporations Act, the requirements of the Australian Stock Exchange and other regulatory requirements.

Attendance details of the 2003 meetings of the Audit Committee are set out in the table below.

Director	Director Attended	Meetings Whilst in Office
D J Docherty (Chairman)	6	6
R B Davis	6	6
D I Scambler	6	6

Any work to be conducted by the external auditor other than the audit must be approved by the Audit Committee.

The financial reporting practices and the composition of the Audit Committee complies with recommendations 4.1, 4.2, 4.3 and 4.4 of the Council.

RISK IDENTIFICATION & MANAGEMENT

Coal & Allied has in place a range of policies and procedures to manage the risks associated with its operating activities. These policies have been adopted by the Board to ensure that potential business risks are identified and appropriate action taken. The management of risk is an integral part of the responsibility of both the Board and Management and is carried out through an integrated risk management assurance process. Coal & Allied benefits from the knowledge, policies and practices adopted by RTL to manage its diverse business activities covering a variety of commodities and operation locations.

The Board has in place a number of systems to identify and manage risk. These include:

- the identification and regular review of all of the significant business risks facing the Company;
- the provision of information by Management to the Board, on a periodic basis, as to the status of any plans, controls, policies and/or procedures to manage the significant business risks;
- guidelines for ensuring that capital expenditure and revenue commitments exceeding certain approved limits are placed before the Board for approval;
- limits and controls for all financial exposures, including the use of derivatives;
- a regulatory compliance program; and
- safety, health and environment policies are supported by a set of standards and management systems which recognise the Company’s commitment to achieving high standards of performance in these areas.

Coal & Allied Industries Limited and controlled entities Corporate Governance Statement

The Managing Director and Chief Financial Officer state in writing to the Board that:

- the financial reporting and operational results are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Coal & Allied's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

This statement complies with the recommendation 7.2 of the Council.

BOARD MEETINGS

The Board normally has six scheduled meetings a year and may meet at other times to deal with urgent issues. In 2003 there were six meetings of the Board and the attendance details for Directors are set out in the table below.

Director	Meetings Attended	Meetings Whilst in Office
B F Horwood	6	6
G H Boyce	4	4
P S Chiaro	2	2
R B Davis	6	6
D J Docherty	6	6
G J Goldberg	6	6
D I Scambler	6	6
K Uehara	1	6

Alternative Directors

K Itadani ¹	4
A M Kite ^{2/3}	-

¹ Alternate Director for K Uehara

² Alternate Director for G H Boyce

³ Alternate Director for P S Chiaro

INDEPENDENT PROFESSIONAL ADVICE

Directors may seek independent professional advice, both individually and collectively at Coal & Allied's expense. Directors are required to give prior written notice to the Chairman of their intention to seek independent professional advice and provide the names of any professional advisers they propose to instruct together with a brief summary of the subject matter. Any advice obtained by a Director must be made available to the other Directors.

REMUNERATION

The Company's Remuneration Policy provides an overview of Coal & Allied's policy with respect to the remuneration of senior executives. The remuneration of executive officers is set by reference to the wider Rio Tinto context and determined following review by the Rio Tinto Board Remuneration Committee. Executive remuneration and other terms of employment are reviewed annually by Coal & Allied and Rio Tinto having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits.

The Board considers that the Company's Remuneration Policy comply with recommendations 9.1, 9.3 and 9.4. The Board does not consider it necessary to establish a Remuneration Committee as proposed by the Council (Recommendation 9.2).

DIRECTORS REMUNERATION

At the 2000 Annual General Meeting shareholders determined that the aggregate remuneration for non-executive Directors would be \$900,000 per annum.

The remuneration paid to each Director during the year ended 31 December 2003 is set out in the Remuneration Report and in note 27 to the financial report. The aggregate amount paid to non-executive Directors remuneration was \$410,000. The following principles are applied in determining the amount of remuneration for non-executive Directors:

- the amount of time required for Directors to consider Coal & Allied and Board matters including preparation time;
- acknowledgement of the personal risk borne as a Director;
- comparison with professional market rates of remuneration and those offered by comparative companies to remain competitive with the market having regard to companies of similar size and complexity; and
- the desire to attract Directors of a high calibre with appropriate levels of expertise and experience.

The Board has determined to discontinue the retirement benefit policy for non-executive Directors effective on 31 March 2004. Entitlements to that date will be frozen and paid to Directors when they retire. Non-executive Directors fees will be adjusted to take the discontinuance of the retirement benefit into consideration.

Coal & Allied Industries Limited and controlled entities Corporate Governance Statement

ENVIRONMENTAL POLICY

Coal & Allied strives to be at the forefront of environmental management in the coal industry. All operations maintain an ISO14001 certification and the Coal & Allied Environmental Management System (EMS) was accredited ISO14001 during the year. Coal & Allied's Social and Environment Report, which is available online at www.coalandallied.com or by contacting Coal & Allied directly accompanies this Annual Report, sets out in detail the environmental efforts made by the Company.

PUBLIC STATEMENTS & CONTINUOUS DISCLOSURE

Coal & Allied makes full and timely disclosures to its shareholders and the market in accordance with its legal and regulatory obligations. Established systems are in place to ensure compliance and any matter that may have a material impact on the price or value of Coal & Allied's securities is reported to the market. The Managing Director, Chief Financial Officer and Company Secretary are responsible to the Board for recommending such disclosures. The Company's policies and procedures comply with recommendation 5.1 of the Council.

SHAREHOLDER COMMUNICATION

The Board informs shareholders and others of all major developments and complies with its continuous disclosure requirements. Any material information is announced to the Stock Exchange in accordance with the Listing Rules. The Company has developed communication strategies to achieve effective communications with its stakeholders. This is in accordance with recommendation 6.1 of the Council.

In compliance with recommendation 6.2 of the Council the external auditor, PricewaterhouseCoopers attends the annual general meeting to answer shareholder questions.

Signed at Melbourne, this 4th day of March 2004 in accordance with a resolution of the Directors.

B F Horwood
Chairman.

Coal & Allied Industries Limited and controlled entities Remuneration Report

For the year ended 31 December 2003

Remuneration of Directors and Executives

Details of the nature and amount of each element of the emoluments of each Director and each of the five officers of the Company receiving the highest emoluments are set out in the following tables.

Non-executive Directors

Name	Directors' Base Fee	Chairman & Committee Fees	Superannuation Benefits	Retirement Benefit ⁸	Other	Total	Accumulated Retirement Benefit ⁸
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
B F Horwood (Chairman) ¹	55	20	-	-	-	75	-
G H Boyce ^{1,2}	37	-	-	-	-	37	-
P S Chiaro ^{1,3}	18	-	-	-	-	18	-
R B Davis	55	23	6	72	1	157	72
D J Docherty	55	29	7	-	-	91	237
D I Scambler	55	11	7	24	-	97	145
K Uehara ⁴	55	-	-	18	-	73	73
K Itadani ⁵	-	-	-	-	-	-	-
A M Kite ⁶	-	-	-	-	-	-	-
A T Harding ⁷	-	-	-	-	-	-	-

¹ These amounts were paid directly to Rio Tinto Limited in accordance with the individual Directors' instructions.

² Resigned 2 September 2003.

³ Appointed 22 September 2003.

⁴ These amounts were paid directly to Mitsubishi Limited in accordance with the individual Director's instructions.

⁵ Alternate Director for K Uehara.

⁶ Appointed on 24 September as alternate Director for P S Chiaro.

⁷ Resigned 31 March 2003 as Alternate Director for G H Boyce.

⁸ Non-executive Directors are entitled to a retirement benefit after three years service. The full benefit, payable after nine years service, is the aggregate of the previous three years remuneration received by the retiring Directors. Where the service is less than nine years, the benefit is proportional to the years of service. The Board has determined to discontinue the retirement benefit policy for non-executive Directors effective on 31 March 2004. Entitlements to that date will be frozen and paid to Directors when they retire.

Executive Directors

Name	Base Salary	Motor Vehicle	Bonus	Superannuation	Termination Benefits	Other Benefits**	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
G J Goldberg	505	9	219	19	-	766	1,518

Other executives of the consolidated entity*

Name	Base Salary	Motor Vehicle	Bonus	Superannuation	Termination Benefits	Other Benefits**	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
I S MacPhee	215	18	45	43	955	27	1,303
R C Hammond	366	7	94	16	-	508	991
G P Parlane	193	12	39	44	614	31	933
J P Berson	329	14	89	26	-	415	873
N Senapati	207	12	40	46	-	44	349

* "Other executives" are officers who are involved in, concerned in, or who take part in, the management of the affairs of Coal & Allied Industries Limited and/or related parties.

** "Other benefits" include payments made in respect of relocation allowances, housing benefits, education assistance, related taxation payments and the fair value of share options in Rio Tinto Limited and Rio Tinto plc.

Coal & Allied Industries Limited and controlled entities Information on Directors

<u>Director</u>	<u>Qualifications & Experience</u>	<u>Special Responsibilities</u>
B F Horwood	BCom, FCPA, FAICD (Age 62) Director since December 2001. Managing Director Rio Tinto Australia. Chairman of Energy Resources of Australia Limited and Director of a number of wholly owned subsidiaries of Rio Tinto. Director of the Minerals Council of Australia and member of the Business Council of Australia.	Chairman. Non-Executive Director Executive – Rio Tinto Limited
P S Chiaro	BS and ME, Environmental Engineering, Rensselaer Polytechnic Institute (Age 50) Director since September 2003 Director of Energy Resources of Australia Limited and Rossing Uranium Limited Previously President and Chief Executive Officer, Rio Tinto Borax	Non-Executive Director Chief Executive - Rio Tinto Energy Product Group
R B Davis	BSc (Tech), FAusIMM, MAICD (Age 61) Director since September 2000. Chairman of Indophil Resources NL. Director of Newcrest Mining Limited. Previous Board Memberships: Pasminco Limited, ACM – Gold Limited and Non-Executive Director of North Flinders Mines Ltd. Formerly Chairman of NSW Minerals Council and Member of NSW State Minerals Advisory Council.	Non-Executive Director Member of Board Audit Committee
D J Docherty	FCPA, FAICD (Age 69) Director since January 1991. Chairman of Hannover Life Re of Australasia Limited and Member of The Rice Marketing Board for the State of NSW. Previously an Executive Director of IBM Australia Limited, Chairman of Legal & General Australia Limited and Non Executive Director of Burns, Philp & Company Limited, Permanent Trustee Company Limited and Ricegrowers' Co-operative Limited.	Non-Executive Director Chairman of Board Audit Committee
C G Thorne	B Sc (Hons), PhD, University of Queensland (Age 54) Director since February 2004. Managing Director of Coal & Allied. Managing Director of Rio Tinto Coal Australia. Fellow and Chartered Professional (Management) of the Australasian Institute of Mining and Metallurgy, President of the Queensland Resources Council, an Australian Representative of the Coal Industry Advisory Board to the International Energy Agency and a Director of Australian Coal Research Limited.	Executive Director
G J Goldberg	BS Mining Engineering, University of Wisconsin-Platteville, MBA, University of Utah (Age 45) Director since July 2001. Resigned February 2004 Managing Director of Coal & Allied. Director of Australian Coal Research Limited, Australian Coal Association Sustainable Development Program Limited, Port Waratah Coal Services Limited, Rio Tinto Energy Marketing Services Pty Limited and Warkworth Mining Limited. Board Member of NSW Minerals Council. Member of the Australian Government Business Roundtable on Sustainable Development.	Executive Director
D I Scambler	BCom, FCPA (Age 60) Director since October 1997. Previously Director of Rio Tinto Finance Limited, Comalco Finance Limited and a number of other Rio Tinto Group companies.	Non-Executive Director Member of Board Audit Committee
K Uehara	LLB (Age 62) Director since October 1999. Senior Vice President, Mineral Resources Metals Group, Mitsubishi Corporation. Director of Mitsubishi Development Pty Limited and Pacific Metals Co., Ltd.	Non-Executive Director
K Itadani	BEC (Age 57) Managing Director Mitsubishi Development Pty Limited. Director Clermont Coal Mines Limited Group, Japan Australia LNG (MIMI), QCT Resources Limited and Warkworth Mining Limited.	Alternate Director for K Uehara
A M Kite	B Eng (Mining), University of Sydney, MBA, Australian Graduate School of Management (Age 41) Director of Rossing Uranium Limited, Kennecott Energy & Coal Company and ICF Group Limited.	Alternate Director for P S Chiaro

Coal & Allied Industries Limited and controlled entities

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Coal & Allied Industries Limited and controlled entities
Statements of financial performance
For the year ended 31 December 2003

	Notes	Consolidated		Parent entity	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Revenue from sale of goods	2	876,717	1,181,437	-	-
Revenue from disposal of operations	2, 3(b)	-	428,288	-	-
Other revenue	2	54,954	64,657	19,022	27,470
Revenue from ordinary activities		931,671	1,674,382	19,022	27,470
Carrying value of non-current assets sold		(3,409)	(3,820)	-	-
Changes in inventories of finished goods and work in progress		(28,928)	17,194	-	-
Raw materials and consumables used		(190,188)	(236,978)	-	-
Selling and distribution expenses		(211,060)	(206,510)	-	-
Employee benefit expenses		(213,418)	(212,836)	(447)	(586)
Depreciation and amortisation expenses	3(a)	(121,297)	(128,107)	-	-
Borrowing costs	3(a)	(15,871)	(27,298)	(8,322)	(17,017)
Administration and other mining expenses		(196,078)	(220,955)	(1,239)	(10,650)
Carrying amount of net assets of operations sold	3(b)	-	(358,288)	-	-
Shares of net profits of associates accounted for using the equity method	34	11,106	9,578	-	-
Profit / (loss) from ordinary activities before income tax expense / benefit		(37,472)	306,362	9,014	(783)
Income tax (expense) / benefit	4	37,593	(146,622)	(2,758)	478
Profit / (loss) from ordinary activities after income tax expense / benefit		121	159,740	6,256	(305)
Net profit attributable to outside equity interest	24	-	-	-	-
Net profit attributable to members of Coal & Allied Industries Limited		121	159,740	6,256	(305)
Adjustment resulting from change in accounting policy	1(i), 1(aa)	(2,048)	-	-	-
Total revenues, expenses and valuation adjustments attributable to members of Coal & Allied Industries Limited recognised directly in equity		(2,048)	-	-	-
Total changes in equity other than those resulting from transactions with owners as owners		(1,927)	159,740	6,256	(305)
Basic earnings per share (cents)	37, 1(w)	0.1	184.4		
Diluted earnings per share (cents)	37, 1(w)	0.1	184.4		

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

Coal & Allied Industries Limited and controlled entities
Statements of financial position
As at 31 December 2003

	Notes	Consolidated		Parent entity	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Current assets					
Cash assets	7	17,289	17,708	6,924	8,869
Receivables	8	77,565	87,832	72	21
Inventories	9	46,059	70,651	-	-
Income tax recoverable	14	29,124	-	29,124	-
Other assets	10	901	3,332	-	734
Total current assets		170,938	179,523	36,120	9,624
Non-current assets					
Receivables	8	27,282	34,150	10,534	-
Investments accounted for using the equity method	11	78,453	79,504	26,043	26,043
Other financial assets	12	2,007	2,007	1,130,651	1,130,651
Property, plant and equipment	13	1,336,668	1,401,671	-	-
Deferred tax assets	14	76,578	58,717	76,578	80
Other assets	10	112,993	117,124	-	-
Total non-current assets		1,633,981	1,693,173	1,243,806	1,156,774
Total assets		1,804,919	1,872,696	1,279,926	1,166,398
Current liabilities					
Payables	15	95,218	114,800	1,701	1,112
Interest bearing liabilities	16	110,580	122,289	98,443	103,179
Current tax liabilities	17	-	37,687	-	-
Other liabilities	20	38,866	11,469	-	-
Provisions	18	71,269	85,525	-	34,667
Total current liabilities		315,933	371,770	100,144	138,958
Non-current liabilities					
Payables	15	18,904	15,704	258,438	204,478
Interest bearing liabilities	16	361,960	407,535	294,095	320,168
Non-current tax liabilities	17	56,344	70,000	56,344	-
Deferred tax liabilities	19	61,887	76,486	61,887	-
Other liabilities	20	79,379	20,914	-	-
Provisions	18	108,324	106,140	-	-
Total non-current liabilities		686,798	696,779	670,764	524,646
Total liabilities		1,002,731	1,068,549	770,908	663,604
Net assets		802,188	804,147	509,018	502,794
Equity					
Parent entity interest					
Contributed equity	22	441,757	441,757	441,757	441,757
Reserves	23	7,385	7,385	-	-
Retained profits	23	351,308	353,267	67,261	61,037
Total parent entity interest		800,450	802,409	509,018	502,794
Outside equity interest in controlled entities	24	1,738	1,738	-	-
Total equity	25	802,188	804,147	509,018	502,794

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

Coal & Allied Industries Limited and controlled entities

Statements of cash flows

For the year ended 31 December 2003

	Notes	Consolidated		Parent entity	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Cash flows from operating activities					
Receipts from customers (inclusive of Goods and Services Tax)		834,854	1,275,860	-	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(773,560)	(915,554)	(48,154)	(86,663)
		61,294	360,306	(48,154)	(86,663)
Dividends received		12,201	8,009	4,592	4,430
Interest received		601	3,329	8,092	16,969
Borrowing costs		(16,645)	(28,515)	(8,322)	(16,268)
Income taxes paid		(75,822)	(124,567)	77	(983)
Other	35	35,022	50,720	95	6,246
Net cash inflow (outflow) from operating activities	35	16,651	269,282	(43,620)	(76,269)
Cash flows from investing activities					
Payments for property, plant and equipment		(55,185)	(119,404)	-	-
Proceeds from disposal of operations		-	428,288	-	-
Proceeds from sale of property, plant and equipment		4,950	9,565	-	-
Proceeds from sale of investments		-	2,929	-	2,025
Net cash inflow (outflow) from investing activities		(50,235)	321,378	-	2,025
Cash flows from financing activities					
Repayment of lease liabilities		(8,294)	(6,699)	-	-
Loans from (to) controlled entities		-	-	-	599,089
Loans from related entities		86,456	605,161	86,456	427,779
Repayments of other borrowings		-	(132,454)	-	-
Dividends paid		(34,699)	(69,333)	(34,699)	(69,333)
Repayment of loans from related entities		(9,170)	(1,056,192)	(9,170)	(924,965)
Net cash inflow (outflow) from financing activities		34,293	(659,517)	42,587	32,570
Net increase (decrease) in cash held		709	(68,857)	(1,033)	(41,674)
Cash at the beginning of the financial year		6,239	75,096	(2,381)	39,293
Cash at the end of the financial year	7	6,948	6,239	(3,414)	(2,381)
Financing arrangements	16				
Non-cash financing and investing activities	36				

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

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003

Note 1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(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 2003 and the results of all controlled entities for the year. Coal & Allied Industries Limited 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. Details of the joint ventures are set out in note 21.

(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; and
- (ii) stores - cost comprises average cost or purchase price plus freight 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.

(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.

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

Tax consolidation legislation

Although a final decision has not been taken, it is highly probable that the Coal & Allied Industries Limited and its wholly owned subsidiaries will form a tax consolidated group with effect from 1 January 2003.

As a consequence, Coal & Allied Industries Limited, 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 on a straight-line basis 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:

- (i) Mining properties - the shorter of applicable mine life and 20 years;
- (ii) Machinery and equipment - the shorter of applicable mine life and 5-15 years depending on the nature of the asset;
- (iii) Buildings not being part of mining properties – 40 years.

(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. Where recovery of the expenditure is considered unlikely, a provision for non-realisation is raised.

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.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

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

(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 life of the mine. 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.

(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 expected to be settled within 12 months of the reporting date 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability includes those employees entitled to long service leave under the coal industry awards. An asset for the amount recoverable from the Coal Mining Industry (Long Service Leave Funding) Corporation is recognised.

Change in accounting policy for employee entitlements

The above policy was adopted with effect from 1 January 2003 to comply with AASB 1028 *Employee Benefits* released in June 2001. In the previous years liabilities arising out of employee entitlements were measured at current rates. An adjustment of \$ 2,048,000 was made against the consolidated retained profits at the beginning of the year to recognise these additional provisions. The restatements of retained profits, current liabilities-provisions and future income tax benefit show the information that would have been disclosed had the new accounting policy always been applied.

Consolidate d entity		Parent entity	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

(Restated)

Restatement of the statement of financial performance

Profit / (loss) from ordinary activities before employee benefits expense and related income tax expense	175,946	519,198	9,461	(197)
Employee benefits expense	(213,418)	(213,105)	(447)	(586)
Profit / (loss) from ordinary activities before income tax expense	(37,472)	306,093	9,014	(783)
Income tax (expense) / benefit	37,593	(146,560)	(2,758)	478
Net profit / (loss) from ordinary activities after income tax expense / benefit	121	159,533	6,256	(305)
Net profit attributable to outside equity interest	-	-	-	-
Net profit / (loss) attributable to members of Coal and Allied Industries Limited	121	159,533	6,256	(305)

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

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

	Consolidated entity		Parent entity	
	2003 \$000 (Restated)	2002 \$000 (Restated)	2003 \$000 (Restated)	2002 \$000 (Restated)
Restatement of retained profits				
Previously reported retained profits at the end of the previous financial year (note 23(b))	353,267	262,860	61,037	130,675
Adjustment for change in accounting policy – employee entitlements	(2,048)	(1,841)	-	-
Restated retained profits at the beginning of the financial year	351,219	261,019	61,037	130,675
Adjustment for change in accounting policy for providing for dividends (note 1(aa))	34,667	34,667	34,667	34,667
Net profit attributable to members of the Coal & Allied Industries Limited	121	159,533	6,256	(305)
Total available for appropriation	386,007	455,219	101,960	165,037
Dividends provided for or paid	(34,699)	(69,333)	(34,699)	(69,333)
Restated retained profits at the end of the financial year	351,308	385,886	67,261	95,704
	2003 \$000	2002 \$000 (Restated)	2003 \$000	2002 \$000 (Restated)
Restatement of Current Liabilities-Provisions				
Previously reported carrying amount at the end of the financial year (Note 18)	71,269	85,525	-	34,667
Adjustment for change in accounting policy for providing for dividends (Note 1(aa))	-	(34,667)	-	(34,667)
Adjustment for change in accounting policy-employee entitlements	-	2,925	-	-
Restated carrying amount at the end of the financial year	71,269	53,783	-	-
	2003 \$000	2002 \$000 (Restated)	2003 \$000	2002 \$000 (Restated)
Restatement of Future Income tax benefit				
Previously reported carrying amount at the end of the financial year (Note 14)	76,578	58,717	76,578	80
Adjustment for change in accounting policy-employee entitlements	-	877	-	-
Restated carrying amount at the end of the financial year	76,578	59,594	78,578	80

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

(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 include a levy to eliminate a deficiency in the Fund by the year 2005. 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.

(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 only undertaken to avoid or minimise possible adverse financial effects of movements in exchange rates. When anticipated sale transactions have been hedged, actual sales which 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.

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

(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.

(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 the 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;
- (iv) finance lease charges, and
- (v) certain exchange differences arising from foreign currency borrowings.

(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, adjusted for bonus elements in ordinary shares issued during the year. Earnings per share for 2002 has been restated to reflect the change in accounting for employee entitlements.

(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.

Coal & Allied Industries Limited and controlled entities

Notes to the financial statements

31 December 2003 (continued)

(y) Employee share savings plan

On 10 September 2001, qualifying employees across the global Rio Tinto 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. For the 2002 and 2003 share savings plans, the monthly minimum and maximum restrictions were set at \$15 and \$740 and \$15 and \$605 respectively. 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 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. Information relating to these schemes is disclosed under note 28.

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.

Change in accounting policy for providing for dividends

The above policy was adopted with effect from 1 January 2003 to comply with AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* released in October 2001 and applied to the half-year ended 30 June 2003. In previous periods, in addition to providing for the amount of any dividends declared by the directors on or before the end of the period but not distributed at balance date, provision was made for dividends to be paid out of retained profits at the end of the period where the dividend was declared between the end of the period and the completion of the financial report.

An adjustment of \$34,667,000 was made against the consolidated retained profits at the beginning of the half-year to reverse the amount provided at 31 December 2002 for the final dividend for the year ended on that date that was declared by the directors between the end of the financial year and the completion of the financial report. This reduced the consolidated current liabilities - provisions and total liabilities at the beginning of the half-year by \$34,667,000 with corresponding increases in consolidated net assets, retained profits, total equity and the total dividends provided for or paid during the current interim period.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

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

	Consolidated entity		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
	(Restated)	(Restated)	(Restated)	(Restated)
Restatement of retained profits				
Previously reported retained profits at the end of the previous financial year (note 23(b))	353,267	262,860	61,037	130,675
Change in accounting policy for providing for dividends	34,667	34,667	34,667	34,667
Restated retained profits at the beginning of the financial-year	387,934	297,527	95,704	165,342
Adjustment for change in accounting policy-employee entitlements (Note 1(i))	(2,048)	(1,841)	-	-
Net profit attributable to members of Coal and Allied Industries Limited	121	159,533	6,256	(305)
Total available for appropriation	386,007	455,219	101,960	165,037
Dividends provided for or paid	(34,699)	(69,333)	(34,699)	(69,333)
Restated retained profits at the end of the financial-year	351,308	385,886	67,261	95,704
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
		(Restated)		(Restated)

Restatement of current liabilities-Provisions

Previously reported carrying amount at the end of the financial year (Note 18)	71,269	85,525	-	34,667
Adjustment for change in accounting policy for providing for dividends	-	(34,667)	-	(34,667)
Adjustment for change in accounting policy-employee entitlements (Note 1(i))	-	2,925	-	-
Restated carrying amount at the end of the financial year	71,269	53,783	-	-
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
		(Restated)		(Restated)

Restatement of dividends provided for or paid

Previously reported total dividends provided or paid during the financial year	34,699	69,333	34,699	69,333
Adjustment for change in accounting policy for providing for dividends	-	-	-	-
Restated total dividends provided for or paid during the financial year	34,699	69,333	34,699	69,333

(ab) Restatement of prior period balances

In the financial report for the financial year ended 31 December 2003, amounts owed to and from joint venture participants have been offset where there is legal right to do so.

The effect of this accounting treatment has been to reduce 'current asset-receivables' and 'current liabilities-payables' as at 31 December 2002 by \$31,148,000.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 2. Revenue

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Revenue from operating activities				
Sale of goods	876,717	1,181,437	-	-
	876,717	1,181,437	-	-
Revenue from outside the operating activities				
Interest	601	3,329	8,092	16,968
Dividends	-	1,258	4,592	4,430
Sale of non-current assets	5,251	10,557	-	-
Coal handling services	14,792	12,734	-	-
Management fees	3,666	7,249	5,038	6,072
Coal compensation receipts	582	4,500	-	-
Sea freight refund	4,915	3,936	-	-
Mining services	-	8,565	-	-
Rental income	3,387	6,025	-	-
Foreign exchange gains	14,099	-	1,300	-
Other income	7,661	6,504	-	-
Total other revenue	54,954	64,657	19,022	27,470
Revenue from disposal of operations	-	428,288	-	-
Total revenue from ordinary activities	931,671	1,674,382	19,022	27,470

Note 3. Operating profit

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$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				
Net gain on disposal				
Property, plant and equipment	1,842	6,737	-	-
	1,842	6,737	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 3. Operating profit (cont'd)

	Consolidated entity		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Expenses				
Cost of sales of goods	670,699	719,114	-	-
Depreciation				
Mining properties (buildings)	7,793	4,468	-	-
Plant and equipment	56,987	64,448	-	-
Total depreciation	64,780	68,916	-	-
Amortisation				
Plant and equipment under finance leases	4,172	4,879	-	-
Deferred mining costs	9,624	6,890	-	-
Mining properties	42,721	47,422	-	-
Total amortisation	56,517	59,191	-	-
Total depreciation and amortisation	121,297	128,107	-	-
Borrowing expenses				
Interest and finance charges paid/payable	15,871	27,298	8,322	17,017
	15,871	27,298	8,322	17,017
Foreign exchange gains and losses				
Net (gains) / losses on forward exchange contracts	(2,903)	1,591	-	-
Other net foreign exchange (gains) / losses	(7,230)	8,353	(1,300)	3,039
Net foreign exchange (gain) / loss	(10,133)	9,944	(1,300)	3,039
Other provisions				
Employee entitlements	30,159	28,449	-	-
Restoration, rehabilitation and environmental	14,341	623	-	-
Total other provisions	44,500	29,072	-	-
Rental expense relating to operating leases				
Minimum lease payments	1,921	8,091	-	-
Research and development	265	256	-	-
Government royalties	40,897	50,877	-	-
(b) Individually significant items				
Gains				
Proceeds from the sale of Moura, Ravensworth and Narama operations	-	428,288	-	-
Less: carrying amount of net assets of operations sold	-	358,288	-	-
Profit on sale of Moura, Ravensworth and Narama operations	-	70,000	-	-
Less: applicable capital gains tax expense	-	(70,000)	-	-
Net gain/(loss) on sale	-	-	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 4. Income tax (cont'd)

Income tax expense attributable to profit from ordinary activities

Although a final decision has not been taken, it is highly probable that the parent entity, Coal & Allied Industries Limited and its wholly owned subsidiaries, will be forming a tax consolidated group with effect from 1 January 2003. The entities also intend to enter into a tax funding agreement, although details of this agreement are yet to be finalised.

As a consequence, Coal & Allied Industries Limited, as the head entity in the tax consolidated group, will recognise current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group in future financial statements as if those transactions, events and balances were its own, in addition to the current and deferred tax balances arising in relation to its own transactions, events and balances. Amounts receivable or payable under the tax funding agreement will be recognised separately by Coal & Allied Industries Limited as tax-related amounts receivable or payable. The impact on the income tax expense and results of Coal & Allied Industries Limited is unlikely to be material because of the tax funding agreement.

In anticipation of implementing the tax consolidation regime, Coal & Allied Industries Limited has 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 one of its wholly-owned subsidiaries. The re-measurement resulted in a net reduction in the consolidated deferred tax liability of \$29,620,000 and additional deferred income tax benefit of \$29,620,000 that will be recognised in the year ending 31 December 2003. No further material impact is expected on the consolidated assets and liabilities and results.

The financial effect of the implementation of the legislation has been recognised in the financial statements for the year ended 31 December 2003.

Note 5. Investments in controlled entities

	Notes	Book Value of Immediate Parent Entity Investment		Interest of Immediate Parent Entity (Ordinary Shares)	
		2003 \$000	2002 \$000	2003 %	2002 %
Coal & Allied Industries Limited					
Directly controlled by					
Coal & Allied Industries Limited					
Coal & Allied Operations Pty Limited	A	17,148	17,148	100	100
Australian Coal Resources Limited	A, B	-	-	100	100
Port Hunter Coal Management Pty Limited	A, C	-	-	100	100
Coal & Allied Superannuation Pty Limited	D	-	-	100	100
Novacoal Australia Pty Limited	A	280,154	280,154	100	100
Novacoal Australia Nominees Pty Limited	A	627	627	100	100
Oaklands Coal Pty Limited		2,379	2,379	100	100
Rio Tinto Coal (NSW) Pty Limited	A, D	-	-	100	100
Kalamah Pty Limited	D	-	-	100	100
Darex Capital Inc (UK)		827,564	827,564	100	100
CNA UK Limited		828	828	100	100
Directly controlled by					
Coal & Allied Operations Pty Limited					
Coal & Allied Sales Pty Limited	A	40	40	100	100
Hexham Engineering Pty Limited	A	1,102	1,102	100	100
Mount Thorley Coal Loading Limited	E	1,770	1,770	44	44
Lemington Coal Mines Pty Limited	B	-	-	100	100

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 5. Investments in controlled entities (cont'd)

	Notes	Book Value of Immediate Parent Entity Investment		Interest of Immediate Parent Entity (Ordinary Shares)	
		2003 \$000	2002 \$000	2003 %	2002 %
Directly controlled by					
Australian Coal Resources Limited					
RW Miller (Holdings) Limited	A	167,261	167,261	100	100
Directly controlled by					
RW Miller (Holdings) Limited					
Miller Pohang Coal Company Pty Limited	F, G	-	-	80	80
Hunter Valley Coal Pty Limited	A	540	540	100	100
Millfield Coal Mining Co Pty Limited	A	200	200	100	100
Northern (Rhondda) Collieries Pty Limited	A	62	62	100	100
Mount Thorley Operations Pty Limited	A	24	24	100	100
Directly controlled by					
Novacoal Australia Pty Limited					
Namoi Valley Coal Pty Limited	A	2,881	2,881	100	100
Howick Coal Sales Pty Limited	A, H	-	-	100	100
Novacoal Australia Pensions Pty Limited	I	-	-	100	100
Directly controlled by					
Rio Tinto Coal (NSW) Pty Limited					
Coal & Allied Mining Services Pty Limited	H	-	-	100	-
Directly controlled by					
CNA UK Limited					
CNA Investments (UK) Pty Limited		202	202	100	100
Directly controlled by					
CNA Investments (UK) Pty Limited & Darex Capital Inc.					
CNA Resources Holdings Pty Limited	J	-	-	100	100
Directly controlled by					
CNA Resources Holdings Pty Limited					
CNA Sub Holdings Pty Limited	K	-	-	100	100
Directly controlled by					
CNA Sub Holdings Pty Limited					
Coal & Allied Finance Limited	B	-	-	100	100
The Energy Group Australia Pty Limited	K	-	-	100	100
Dolphin Properties Pty Limited		202	202	100	100
Directly controlled by					
Kalamah Pty Limited					
CNA Resources Limited		837,696	837,696	100	100

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 5. Investments in controlled entities (cont'd)

	Notes	Book Value of Immediate Parent Entity Investment		Interest of Immediate Parent Entity (Ordinary Shares)	
		2003 \$000	2002 \$000	2003 %	2002 %
Directly controlled by					
CNA Resources Limited					
Ravensworth Pastoral Company Pty Limited		1,860	1,860	100	100
CNA Coal Limited		-	-	-	-
Moura Coal Mining Pty Limited		-	-	-	-
Archveyor Pty Limited		-	-	-	-
Moura Coal Service Co Pty Limited		-	-	-	-
CNA Staff Retirement Fund Pty Limited	C	-	-	100	100
CNA Bengalla Pty Limited	C	-	-	100	100
CNA Opencut Mining Pty Limited		-	-	-	-
CNA Warkworth Mining Investments Pty Limited		-	-	-	-
CNA Warkworth Australasia Pty Limited	C	-	-	100	100
CNA Bengalla Investments Pty Limited	K	-	-	100	100
Moura Coal Investments Pty Limited	K	-	-	100	100
Directly controlled by					
Archveyor Pty Limited					
Moura Highwall Mining Pty Limited		-	-	-	-
Directly controlled by					
CNA Warkworth Australasia Pty Limited					
Warkworth Coal Sales Limited	L	-	-	55.6	55.6
Warkworth Mining Limited	L	-	-	55.6	55.6
Warkworth Pastoral Co Pty Limited	L	-	-	55.6	55.6
Warkworth Tailings Treatment Pty Limited	M	-	-	55.6	55.6
Directly controlled by					
Moura Coal Investments Pty Limited					
Moura Sales Pty Limited		-	-	-	-
Directly controlled by					
CNA Warkworth Mining Investments Pty Limited					
Ravensworth Coal Trust		-	-	-	-

All entities are incorporated in and carry on business in Australia except for the following:

Entity	Country of Incorporation
Darex Capital Inc (UK)	United Kingdom
CNA UK Limited	United Kingdom

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 5. Investments in controlled entities (cont'd)

Notes:

A. These wholly owned companies and the Parent Entity have entered into a deed of cross guarantee and are relieved from the requirement to prepare audited accounts under Australian Securities & Investment Commission Class Order 98/1418. These companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by the Parent Entity, they also represent the "Extended Closed Group".

A consolidated statement of financial performance and consolidated statement of financial position, comprising Coal & Allied and subsidiaries which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 December 2003 is set out below.

	2003	2002
	\$000	\$000
Statement of Financial Performance		
Profit / (loss) from ordinary activities before income tax expense	(5,853)	172,622
Income tax (expense) / benefit	17,847	(62,875)
Profit from ordinary activities after income tax expense	11,994	109,747
Transfer from asset revaluation reserve	-	-
Retained profits at beginning of year	266,980	226,566
Dividends provided for or paid	(33)	(69,333)
Retained profits at end of year	278,941	266,980
Statement of Financial Position		
Current assets		
Cash assets	7,318	4,870
Receivables	32,725	69,425
Inventories	38,376	62,300
Income tax recoverable	29,124	-
Other assets	559	2,702
Total current assets	108,102	139,297
Non-current assets		
Receivables	24,412	24,750
Investments accounted for using the equity method	78,453	79,504
Other financial assets	1,670,941	1,668,154
Property, plant and equipment	645,278	689,352
Deferred tax assets	76,578	38,953
Other assets	70,718	72,359
Total non-current assets	2,566,380	2,573,072
Total assets	2,674,482	2,712,369

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 5. Investments in controlled entities (cont'd)

	2003	2002
	\$000	\$000
Current liabilities		
Payables	67,575	124,631
Interest bearing liabilities	98,443	103,179
Current tax liabilities	-	30,042
Provisions	51,915	71,460
Other	33,564	15,725
Total current liabilities	251,497	345,037
Non-current liabilities		
Payables	1,130,297	1,174,325
Interest bearing liabilities	294,097	320,168
Non-current tax liabilities	56,344	-
Deferred tax liabilities	61,887	56,414
Provisions	81,817	84,572
Other	73,168	16,074
Total non-current liabilities	1,697,610	1,651,553
Total liabilities	1,949,107	1,996,590
Net assets	725,375	715,779
Equity		
Contributed equity	439,755	441,757
Reserves	6,679	7,042
Retained profits	278,941	266,980
Total parent entity interest	725,375	715,779

- B. Book value of investments (\$5 only)
- C. Book value of investments (\$2 only)
- D. Book value of investments (\$1 only)
- E. A further 13% interest is held by R W Miller (Holdings) Limited
- F. Book value of investments (\$80 only)
- G. Outside equity interest in controlled entities refer note 24
- H. Book value of investments (\$100 only)
- I. Book value of investments (\$3 only)
- J. Book value of investments (\$203 only)
- K. Book value of investments (\$12 only)
- L. Book value of investments (\$15 only)
- M. Book value of investments (\$44 only)

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 5. Investments in controlled entities (cont'd)

Sale of Moura, Ravensworth and Narama Operations - 2002

Effective from 14 March 2002, Coal & Allied Industries Limited sold its interest in the Ravensworth East Mine and its 50% interest in the Narama Joint Venture for a cash consideration of \$131.2 million.

Effective from 28 May 2002, Coal & Allied Industries Limited sold its 55% interest in the Moura Joint Venture to Mitsui & Co for cash consideration of \$300.3 million. The sale agreement included the sale of Moura Coal Investments Pty Limited's 55% interest in the Moura Joint Venture, 100% of Archveyor Pty Ltd and all other associated companies.

Details of identifiable net assets of controlled entities and assets disposed:

	\$000
Property, plant and equipment (including mining rights)	362,574
Deferred mining costs	31,689
Inventories	15,382
Receivables	53,103
Payables	(33,538)
Provisions	(97,130)
Tax assets	26,208
Net assets disposed	<u>358,288</u>
Cash consideration	<u>428,288</u>
Gain / (loss) on disposal	70,000
Less: applicable capital gains tax expense	<u>70,000</u>
Gain/(loss) on sale	<u><u>-</u></u>

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Dividends

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Ordinary				
Final dividend: Nil cents per share (2002: 40 cents per share fully franked at a tax rate of 30%)	-	34,634	-	34,634
Interim dividend: Nil cents per share (2002: 40 cents per share fully franked at a tax rate of 30%)	-	34,634	-	34,634
Preference				
Final dividend: Nil cents per share (2002: 3.5 cents per share fully franked at a tax rate of 30%)	-	33	-	33
Interim dividend: 3.5 cents per share fully franked at a tax rate of 30% (2002: 3.5 cents per share fully franked at a tax rate of 30%)	33	32	33	32
	33	69,333	33	69,333

The final preference share dividend declared for 2003 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 December 2004.

Franking credits available for subsequent financial years	185,619	141,172	-	-
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The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of income tax payable as at the end of the year;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) franking credits that may be prevented from being passed to the parent entity.

Under legislation that was effective from 1 July 2002, the franking account is maintained on an Australian income tax paid basis rather than on Australian taxed profit basis as was previously the case. In accordance with this Legislation, the franking account balances as at 30 June 2002 were converted so that the opening balances on 1 July 2002 reflected the Australian income tax paid amounts. Amounts debited to the franking account in respect of dividends paid after 30 June 2002 are the franking credits attaching to those dividends rather than the gross amount of the dividends. The 2003 and 2002 franking account balances disclosed above have been determined on an Australian income tax paid basis.

Note 7. Cash assets

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Cash at bank	17,289	17,708	6,924	8,869
	17,289	17,708	6,924	8,869

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	17,289	17,708	6,924	8,869
Less: Bank overdrafts and working capital facility (note 16)	(10,341)	(11,469)	(10,338)	(11,250)
Balances per statement of cash flows	6,948	6,239	(3,414)	(2,381)

The cash at bank is earning interest rates between 0.00% and 5.20%. The interest rate of bank overdraft facilities range from 8.60% to 9.10%. The working capital facility (note 16) bears interest at 1.15%.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 8. Receivables

	Consolidated		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Current				
Trade debtors	43,800	38,137	-	-
Less: Provision for doubtful debts	-	(32)	-	-
	43,800	38,105	-	-
Long service leave receivable from Coal Mining Industry (Long Service Leave Funding) Corporation	11,124	3,126	-	-
Other debtors*	22,641	46,601	72	21
	77,565	87,832	72	21

* Includes a loan to an employee who is a director of a subsidiary (Note 33)

Non-current				
Surplus in superannuation fund	2,573	3,773	-	-
Long service leave receivable from Coal Mining Industry (Long Service Leave Funding) Corporation	22,427	29,589	-	-
Amounts receivable from controlled entities – tax related	-	-	10,406	-
Other debtors	2,282	788	128	-
	27,282	34,150	10,534	-

Note 9. Inventories

	Consolidated		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Current				
Coal stocks – at cost	21,763	58,350	-	-
Coal stocks – at net realisable value	9,080	-	-	-
Raw materials and stores – at cost	17,832	15,233	-	-
Provision for diminution of value – stores	(2,616)	(2,932)	-	-
	46,059	70,651	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 10. Other assets

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Prepayments	901	629	-	-
Current income tax asset	-	-	-	734
Deferred foreign currency movement on US dollar loans (losses on designated hedges)	-	2,703	-	-
	901	3,332	-	734
Non-current				
Deferred mining costs:				
Areas of interest in the production phase (Note 1(h))	146,695	140,707	-	-
Accumulated amortisation	(69,902)	(55,926)	-	-
	76,793	84,781	-	-
Areas of interest in the development phase (Note 1(g))	34,658	30,801	-	-
Provision for non-realisation	(8,462)	(8,462)	-	-
	26,196	22,339	-	-
Areas of interest in the exploration and evaluation phase (Note 1(g))	26,197	27,487	-	-
Provision for non-realisation	(16,193)	(17,483)	-	-
	10,004	10,004	-	-
	112,993	117,124	-	-

Note 11. Non-current assets – Investments accounted for using the equity method

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Shares in associates (Note 34)	78,453	79,504	26,043	26,043

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.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 12. Non-current assets – Other financial assets

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Other (non-traded) investments				
Shares at cost – other corporations	2,007	2,007	1,952	1,952
Shares at cost – controlled entities	-	-	1,128,699	1,128,699
	2,007	2,007	1,130,651	1,130,651

Note 13. Non-current assets – Property, plant and equipment

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Land				
Freehold land				
At cost *	6,355	6,810	-	-
Operational mining properties				
At cost*	1,096,056	1,079,602	-	-
Less: Accumulated amortisation and depreciation	(209,310)	(161,063)	-	-
Less: Provision for diminution	(10,036)	(10,036)	-	-
	876,710	908,503	-	-
Plant and equipment				
At cost	1,211,831	1,158,390	-	-
Less: Accumulated depreciation	(840,885)	(810,873)	-	-
	370,946	347,517	-	-
Plant and equipment under finance lease				
Under finance lease	62,766	78,055	-	-
Less: Accumulated amortisation	(17,729)	(23,523)	-	-
	45,037	54,532	-	-
Capital work in progress				
At cost	37,620	84,309	-	-
Total plant and equipment	453,603	486,358	-	-
Total property, plant and equipment	1,336,668	1,401,671	-	-

* Assets held at valuation in prior years deemed to be held at cost under revised accounting standards. Refer note 1(n).

Coal & Allied Industries Limited and controlled entities

Notes to the financial statements

31 December 2003 (continued)

Note 13. Non-current assets – Property, plant and equipment (cont'd)

Valuations of land and buildings

The basis of 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 \$6,355,000.

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current 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 – 2003						
Carrying amount at start of year	6,810	908,503	347,517	54,532	84,309	1,401,671
Additions	-	392	4,751	-	50,082	55,225
Disposals	(455)	(1,871)	(771)	(30)	-	(3,127)
Depreciation/amortisation expense (note 3(a))	-	(50,514)	(56,986)	(4,172)	-	(111,672)
Other	-	20,200	76,435	(5,293)	(96,771)	(5,429)
Carrying amount at end of year	<u>6,355</u>	<u>876,710</u>	<u>370,946</u>	<u>45,037</u>	<u>37,620</u>	<u>1,336,668</u>

Note 14. Tax assets

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Current tax recoverable	<u>29,124</u>	-	<u>29,124</u>	-
Non-current				
Future income tax benefit	<u>76,578</u>	58,717	<u>76,578</u>	80

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 15. Payables

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Trade creditors	64,986	94,890	482	64
Deferred revenue	598	610	-	-
Other creditors	29,634	19,300	1,219	1,048
	95,218	114,800	1,701	1,112
Non-current				
Amounts payable to controlled entities	-	-	256,735	202,776
Deferred revenue	13,479	14,032	-	-
Debentures	7	7	-	-
Loans from related parties	5,418	1,665	1,703	1,702
	18,904	15,704	258,438	204,478

Note 16. Interest bearing liabilities

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Bank overdrafts and working capital facility	10,341	11,469	10,338	11,250
Lease liability (Note 32)	5,266	8,237	-	-
Loan from related entities	94,973	102,583	88,105	91,929
	110,580	122,289	98,443	103,179
Non-current				
Lease liability (Note 32)	43,924	49,248	-	-
Loan from related entities	317,019	357,270	294,095	320,168
Other loan	1,017	1,017	-	-
	361,960	407,535	294,095	320,168

Bank overdraft and working capital facility

The bank overdraft amounts to \$nil (2002: \$0.2 million) and bears interest between 8.6% and 9.1%. The working capital facility is drawn to \$10.3 million (2002: \$11.25 million), is unsecured, and bears interest at 1.15%.

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 1.2% and 2.0%. The loan is due to be repaid on 4 July 2005 and the loan is unsecured.

Other loan

Other loan is secured by a bank guarantee and bears interest of 7.5%.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 17. Tax liabilities

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Income tax	-	37,687	-	-
Non-current				
Income tax	56,344	70,000	56,344	-

Note 18. Provisions

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Dividends	-	34,667	-	34,667
Employee entitlements	50,659	26,383	-	-
Mine site restoration	13,371	15,521	-	-
Other	7,239	8,954	-	-
	71,269	85,525	-	34,667
Non-current				
Employee entitlements	51,950	51,576	-	-
Mine site restoration	56,374	54,564	-	-
	108,324	106,140	-	-

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 - 2003				
Carrying amount at start of year	15,521	34,667	8,954	59,142
Additional provisions recognised	8,591	32	1,350	9,973
Payments/other sacrifices of economic benefits	(10,741)	(34,699)	(3,065)	(48,505)
Carrying amount at end of the year	13,371	-	7,239	20,610

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 18. Provisions (cont'd)

CURRENT	Mine Site Restoration \$000	Dividends \$000	Others \$000	Total \$000
Parent entity - 2003				
Carrying amount at start of year	-	34,667	-	34,667
Additional provisions recognised	-	32	-	32
Payments/other sacrifices of economic benefits	-	(34,699)	-	(34,699)
Carrying amount at end of the year	-	-	-	-

NON-CURRENT	Mine Site Restoration \$000	Dividends \$000	Others \$000	Total \$000
Consolidated - 2003				
Carrying amount at start of year	54,564	-	-	54,564
Additional provisions recognised	5,750	-	-	5,750
Payments/other sacrifices of economic benefits	(3,940)	-	-	(3,940)
Carrying amount at end of the year	56,374	-	-	56,374

NON-CURRENT	Mine Site Restoration \$000	Dividends \$000	Others \$000	Total \$000
Parent entity - 2003				
Carrying amount at start of year	-	-	-	-
Adjustment from change in accounting policy	-	-	-	-
Additional provisions recognised	-	-	-	-
Payments/other sacrifices of economic benefits	-	-	-	-
Carrying amount at end of the year	-	-	-	-

Note 19. Deferred tax liabilities

	Consolidated		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Provision for deferred income tax	61,887	76,486	61,887	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 20. Other liabilities

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Current				
Deferred foreign currency movement on US dollar loans (gains on designated hedges)	38,866	11,469	-	-
Non-current				
Deferred foreign currency movement on US dollar loans (gains on designated hedges)	79,379	20,914	-	-

Note 21. Interests in joint ventures

At both 31 December 2003 and 2002, controlled entities of Coal & Allied participated in the following joint ventures:

Name of Joint-Venture	Principal activity	Share of interest
		2003
		%
Mount Thorley Co-venture	Coal mining, processing and marketing	80
Warkworth Associates	Coal mining, processing and marketing	56
Bengalla Joint Venture	Coal mining, processing and marketing	40

The consolidated entity's interests in assets employed in the joint ventures are included in the consolidated statement of financial position under the classifications shown below.

	Consolidated	
	2003	2002
	\$000	\$000
Current Assets		
Cash	6,318	8,632
Receivables	35,427	46,318
Inventories	19,078	19,939
Other	173	119
	60,996	75,008
Non-current Assets		
Receivables	3,321	13,681
Property, plant and equipment	814,704	788,204
Deferred mining costs	47,967	56,214
	865,992	858,099
Total assets	926,988	933,107

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 21. Interests in joint ventures (cont'd)

	Consolidated	
	2003	2002
	\$000	\$000
Current Liabilities		
Payables	33,545	36,124
Interest bearing liabilities	4,525	7,990
Provisions	14,821	16,365
	52,891	60,479
Non-current Liabilities		
Interest bearing liabilities	42,669	47,211
Provisions	45,347	38,707
	88,016	85,918
Total Liabilities	140,907	146,397
Net interest in joint ventures	786,081	786,710
Revenue from the sale of the consolidated entity's share of coal produced by the joint ventures	305,632	538,182
Share of costs incurred by joint ventures	(320,141)	(370,131)
Net contribution before finance and tax	(14,509)	168,051
Share of contingent liabilities included in Note 31	7,950	16,629
Share of capital commitments included in Note 32	1,884	7,743
	Tonnes	Tonnes
	000	000
Share of output from joint ventures	8,232	10,977

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 22. Contributed equity

	2003	2002	2003	2002
	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:		2003	2003
Date	Details	Number of shares	\$000
		000	\$000
1 January 2003	Opening balance	86,584	440,828
31 December 2003	Balance	<u>86,584</u>	<u>440,828</u>

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 23. Reserves and retained profits

	Consolidated		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
(a) Reserves				
Asset revaluation reserve	7,042	7,042	-	-
Foreign currency translation reserve	343	343	-	-
	7,385	7,385	-	-
Movements:				
Asset revaluation reserve				
Balance 1 January 2003	7,042	7,042	-	-
Amount transferred to retained profits	-	-	-	-
Balance 31 December 2003	7,042	7,042	-	-
Foreign currency translation reserve				
Balance 1 January 2003	343	342	-	-
Net exchange differences on translation of foreign controlled entity	-	1	-	-
Balance 31 December 2003	343	343	-	-
(b) Retained profits				
Retained profits at the beginning of the financial year	353,267	262,860	61,037	130,675
Net profit attributable to members of Coal & Allied Industries Limited	121	159,740	6,256	(305)
Adjustment resulting from change in accounting policy for providing for dividends (note 1(aa))	34,667	-	34,667	-
Adjustment resulting from change in accounting policy for providing for employee entitlements (note 1(i))	(2,048)	-	-	-
Amount transferred from asset revaluation reserve	-	-	-	-
Dividends provided for or paid (note 6)	(34,699)	(69,333)	(34,699)	(69,333)
Retained profits at the end of the financial year	351,308	353,267	67,261	61,037

(c) Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve was previously 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 accounting policy note 1(l).

Note 24. Outside equity interests in controlled entities

	Consolidated	
	2003 \$000	2002 \$000
Interest in:		
Share capital	1,665	1,665
Reserves	26	26
Retained profits	47	47
	1,738	1,738

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 25. Equity

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Total equity at the beginning of the financial year	804,147	713,739	502,794	572,432
Adjustments to retained earnings at the beginning of the financial year resulting from change in accounting policy for providing for dividends	34,667	-	34,667	-
Total changes in equity recognised in the statement of financial performance	(1,927)	159,740	6,256	(305)
Transactions with owners as owners:				
Dividends provided for or paid	(34,699)	(69,333)	(34,699)	(69,333)
Movement in reserves	-	1	-	-
Total changes in outside equity interest	-	-	-	-
Total equity at the end of the financial year	802,188	804,147	509,018	502,794

Note 26. Financial instruments

(a) Credit Risk Exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provision for doubtful debts.

For off-balance sheet financial instruments, including derivatives, which are deliverable, credit risk also arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. A material exposure can arise from forward exchange contracts and the consolidated entity may be exposed to loss in the event that counterparties fail to deliver the contracted amount. Coal & Allied has a Credit Committee that assesses counterparty risk.

(b) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements. Exposures arise from assets and liabilities bearing variable interest rates.

2003	Notes	Floating interest rate \$000	Non-interest bearing \$000	Total \$000
Financial assets				
Cash	7	17,289	-	17,289
Receivables	8	68	104,779	104,847
Other financial assets	12	-	2,007	2,007
		17,357	106,786	124,143
Weighted average interest rate		4.24%		
Financial liabilities				
Payables	15	-	114,122	114,122
Interest bearing liabilities	16	472,540	-	472,540
		472,540	114,122	586,662
Weighted average interest rate		2.08%		
Net financial assets / (liabilities)		(455,183)	(7,336)	(462,519)

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 26. Financial instruments (cont'd)

2002	Notes	Floating interest rate \$000	Non- interest bearing \$000	Total \$000
Financial assets				
Cash	7	17,708	-	17,708
Receivables	8	68	121,914	121,982
Other financial assets	12	-	2,007	2,007
		17,776	123,921	141,697
Weighted average interest rate		3.49%		
Financial liabilities				
Payables	15	-	130,504	130,504
Interest bearing liabilities	16	529,824	-	529,824
		529,824	130,504	660,328
Weighted average interest rate		2.30%		
Net financial assets / (liabilities)		(512,048)	(6,583)	(518,631)
	Notes	2003 \$000	2002 \$000	
Net financial assets as above		(462,519)	(518,631)	
Non-financial assets and liabilities				
Inventories	9	46,059	70,651	
Other assets	10	113,894	120,456	
Property, plant and equipment	13	1,336,668	1,401,671	
Investment accounted for using the equity method	11	78,453	79,504	
Deferred tax assets	14	105,702	58,717	
Deferred tax liabilities	19	(61,887)	(76,486)	
Tax liabilities	17	(56,344)	(107,687)	
Provisions	18	(179,593)	(191,665)	
Other liabilities	20	(118,245)	(32,383)	
		802,188	804,147	

(c) Net Fair Value of Financial Assets and Liabilities

(i) On-balance Sheet

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The net fair value of listed investments (overseas) has been made by reference to market prices prevailing at balance date. For unlisted investments, the net fair value is an assessment by the Directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment (refer also to note 12).

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 26. Financial instruments (cont'd)

(c) Net Fair Value of Financial Assets and Liabilities (cont'd)

(ii) Off-balance sheet

For forward exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance date calculated by reference to the current forward rates for contracts with similar maturity profiles. The parent entity and certain controlled entities may have potential financial liabilities which may arise from certain contingencies disclosed in note 31. As explained in that note, no material losses are anticipated in respect of any of these contingencies.

The carrying amounts and net fair values of financial assets and liabilities at balance date are as follows:

	2003		2002	
	Carrying Amount \$000	Net Fair Value \$000	Carrying Amount \$000	Net Fair Value \$000
On-balance sheet				
Financial assets				
Unlisted investment	2,007	2,007	2,007	2,007
Other assets	122,136	122,143	139,690	139,690
	124,143	124,143	141,697	141,697
Financial liabilities				
Lease liabilities	49,190	49,190	57,485	57,485
Other liabilities	537,472	537,472	602,843	602,843
	586,662	586,662	660,328	660,328

Valuations of off-balance sheet derivative instruments are disclosed in note 26(d) & (e).

None of the classes of financial assets and liabilities are readily traded on organised markets in standardised form.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 26. Financial instruments (cont'd)

(d) Off-balance sheet derivative instruments

The consolidated entity is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates and coal prices.

As these contracts are hedging anticipated future sales, any unrealised gains and losses on the contracts, together with costs of the contracts, are deferred and will be recognised in the measurement of the underlying transaction. Included in the amounts deferred are any gains and losses on hedging contracts terminated prior to maturity where the related hedged transaction is still expected to occur.

Forward foreign exchange contracts

The consolidated entity has acquired, through the acquisition of Peabody's Australian coal assets, a limited number of forward exchange contracts to sell US dollars. The contracts are timed to mature when the shipments of coal are made.

At balance date the details of outstanding contracts are:

Sell US dollars	Buy Australian dollars		Average exchange rate	
	2003 \$000	2002 \$000	2003	2002
Maturity				
0 – 6 months	13,278	6,282	0.6397	0.6367
7 – 12 months	9,572	6,267	0.6272	0.6382
1 – 2 years	3,305	22,057	0.6052	0.6346
2 – 3 years	-	3,305	-	0.6052

The following gains, losses and costs have been deferred at 31 December 2003:

	2003 \$000	2002 \$000
Unrealised gains	3,776	-
Unrealised losses	-	(4,804)
Provision raised at date of Peabody group acquisition	4,220	6,780
Net unrealised gains/(losses) and costs	<u>7,996</u>	<u>1,976</u>

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 26. Financial instruments (cont'd)

Coal swap contracts

The consolidated entity has entered into a number of coal swap contracts to provide an effective hedge to reduce exposure to fluctuations in coal prices. The contracts are timed to mature when the shipments of coal are made.

At balance date the details of outstanding contracts are:

Maturity	Volume		Average US\$ coal price	
	2003 000 tonnes	2002 000 tonnes	2003 US\$/t	2002 US\$/t
0 – 6 months	260	-	26.63	-
7 – 12 months	390	-	31.65	-
1 – 2 years	520	-	26.83	-
2 – 3 years	520	-	27.38	-

The following gains, losses and costs have been deferred at 31 December 2003 (based on an average coal price index of US\$41.78 per tonne):

	2003 \$000	2002 \$000
Unrealised losses	(37,169)	-
Net unrealised gains/(losses) and costs	<u>(37,169)</u>	<u>-</u>

(e) Hedges of anticipated future transactions

The consolidated entity is exposed to movements in the A\$:US\$ exchange rate on the US dollar borrowings within the Group. The Group has designated these borrowings as a hedge of its US dollar sales revenue over the term of the debt. The exchange movements on the US dollar borrowings are deferred to the balance sheet (Note 10 and Note 20) and included in revenue on the statement of financial performance (Note 2) as the designated US dollar sales revenue is realised.

	Loan Balance		Deferred Gain
	US\$000	A\$000	A\$000
Balance at 31 December 2003	308,500	411,993	118,245

Coal & Allied acquired an interest rate swap as part of the acquisition of Peabody's Australian coal assets. The interest swap provides an effective hedge to increasing interest rates on the outstanding borrowing facility. The notional value of the interest rate swap reduces over the term from April 1998 to June 2008 at an interest rate of 6.07%. The net unrealised losses as at 31 December 2003 were A\$13.5 million (2002: unrealised loss of A\$15.7 million).

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 27. Remuneration of directors

	Directors of parent entity	
	2003	2002
	\$000	\$000
Income paid or payable, or otherwise made available, to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities*	2,067	2,380 [#]

*Excluding executives of the parent entity who are only directors of wholly owned Australian controlled entities.

[#] 2002 figure has been restated to take into account income tax payments and fair values of Rio Tinto Limited and Rio Tinto plc share options attributable to the 2002 year.

Directors, who are employees of Rio Tinto are awarded an allocation of Rio Tinto shares under a Rio Tinto senior executive incentive scheme. The incentive scheme awards a future conditional entitlement to Rio Tinto Limited and Rio Tinto plc shares.

The numbers of parent entity directors whose total income from the parent entity or related parties was within the specified bands are as follows:

	\$	\$	2003	2002 [#]
0 – 9,999	0	9,999	3	3
10,000 – 19,999	10,000	19,999	1	-
30,000 – 39,999	30,000	39,999	1	1
50,000 – 59,999	50,000	59,999	-	3
60,000 – 69,999	60,000	69,999	-	2
70,000 – 79,999	70,000	79,999	2	1
90,000 – 99,999	90,000	99,999	2	-
160,000 – 169,999	160,000	169,999	-	1
150,000 – 159,999	150,000	159,999	1	-
1,510,000 – 1,519,999	1,510,000	1,519,999	1	-
1,710,000 – 1,719,999	1,710,000	1,719,999	-	1

[#] 2002 figure has been restated to take into account income tax payments and fair values of Rio Tinto Limited and Rio Tinto plc share options attributable to the 2002 year.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 28. Remuneration of executives

**Executive officers of the
consolidated entity**
2003 2002
\$000 \$000

Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by Australian based executive officers (including directors) whose remuneration was at least \$100,000:

Executive officers of the parent entity		8,818	7,693 [#]
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[#] 2002 figure has been restated to take into account income tax payments and fair values of Rio Tinto Limited and Rio Tinto plc share options attributable to the 2002 year.

The numbers of Australian based executive officers (including directors) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

	\$	\$	Executive officers of the consolidated entity	
			2003	2002[#]
150,000	–	159,999	-	1
160,000	–	169,999	-	1
200,000	–	209,999	1	1
210,000	–	219,999	-	1
220,000	–	229,999	-	1
230,000	–	239,999	1	-
250,000	–	259,999	-	2
260,000	–	269,999	1	-
280,000	–	289,999	-	1
290,000	–	299,999	1	1
300,000	–	309,999	1	2
330,000	–	339,999	-	1
340,000	–	349,999	1	-
740,000	–	749,999	1**	-
780,000	–	789,999	-	1
790,000	–	799,999	1*	-
870,000	–	879,999	1	-
930,000	–	939,999	1**	-
990,000	-	999,999	1	-
1,080,000	–	1,089,999	-	1
1,110,000	–	1,119,999	-	1
1,300,000	–	1,309,999	1**	-
1,510,000	–	1,519,999	1	-
1,710,000	–	1,719,999	-	1

[#] 2002 figure has been restated to take into account income tax payments and fair values of Rio Tinto Limited and Rio Tinto plc share options attributable to the 2002 year.

* Includes amounts paid out on retirement

** Includes amounts allowed for at balance date for retirement in 2004

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 28. Remuneration of executives (cont'd)

Executive Option Scheme

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 and Rio Tinto plc shares. A summary of the numbers of options granted to, exercised and held by Australian-based executive officers (with income of at least \$100,000) during the year ended 31 December 2003 is set out below.

Set out below are the summaries of options granted under the plan.

	Grant date	Expiry date	Exercise price	Balance at start of the year	Issued during the year	Exercised during the year	Lapsed during the year	Balance at end of the year
				Number	Number	Number	Number	Number
Consolidated entity – 2003								
Rio Tinto Limited								
	05-Mar-01	05-Mar-11	\$32.0106	13,735	-	-	-	13,735
	13-Mar-02	12-Mar-12	\$39.8708	17,980	-	-	-	17,980
	07-Mar-03	06-Mar-13	\$33.3360	-	24,867	-	628	24,239
				31,715	24,867	-	628	55,954
Rio Tinto plc								
	12-Mar-99	11-Mar-09	£8.0880	18,146	-	-	-	18,146
	07-Mar-00	06-Mar-10	£9.6540	36,884	-	3,022	-	33,862
	06-Mar-01	05-Mar-11	£12.6560	33,399	-	-	-	33,399
	13-Mar-02	12-Mar-12	£14.5860	41,019	-	-	-	41,019
	07-Mar-03	06-Mar-13	£12.6300	-	48,925	-	-	48,925
				129,448	48,925	3,022	-	175,351
Total				161,163	73,792	3,022	628	231,305
Consolidated entity – 2002								
Rio Tinto Limited								
	05-Mar-01	05-Mar-11	\$32.0106	13,735	-	-	-	13,735
	13-Mar-02	12-Mar-12	\$39.8708	-	17,980	-	-	17,980
				13,735	17,980	-	-	31,715
Rio Tinto plc								
	27-May-98	24-May-08	£8.2000	17,218	-	17,218	-	-
	12-Mar-99	11-Mar-09	£8.0880	23,106	-	4,960	-	18,146
	07-Mar-00	06-Mar-10	£9.6540	36,884	-	-	-	36,884
	06-Mar-01	05-Mar-11	£12.6560	33,399	-	-	-	33,399
	13-Mar-02	12-Mar-12	£14.5860	-	41,019	-	-	41,019
				110,607	41,019	22,178	-	129,448
Total				124,342	58,999	22,178	-	161,163

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 28. Remuneration of executives (cont'd)

Options exercised during the financial year and number of shares issued to executives on the exercise of options

	Exercise date	Fair value of shares at issue date	Consolidated	
			2003 Number	2002 Number
Rio Tinto plc				
	09-Sep-03	£12.1555	3,022	-
	20-Mar-02	£13.9275	-	4,960
	05-Mar-02	£15.0299	-	5,130
	08-Feb-02	£14.2334	-	4,551
	07-Feb-02	£16.0765	-	7,537
			3,022	22,178

The fair value of shares issued on the exercise of options is the weighted average price at which the company's shares were traded on the relevant stock exchange on the day prior to the exercise of the options.

	Consolidated	
	2003 Number	2002 Number
Rio Tinto Limited	-	-
Rio Tinto plc	39,714	18,146
Options vested at reporting date	39,714	18,146

The amounts disclosed for remuneration of executive officers in this note include the assessed fair values at the date they were granted of options granted to executive officers during the year ended 31 December 2003. Fair values have been independently determined using an appropriate option pricing model that takes into account the exercise price, term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The assessed fair value at grant date of options granted to executive officers is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration disclosed above.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 29. Employee entitlements

(i) Superannuation

The consolidated entity operates and participates in the following superannuation plans:

Plans sponsored by the Consolidated Entity

The consolidated entity sponsors the Coal & Allied Superannuation Plan No. 1 and the CNA Staff Retirement Fund (formerly Peabody Staff Retirement Fund). Employees are entitled to benefits on resignation, retirement, disability or death. The superannuation plans provide accumulated benefits and defined benefits based on years of membership and final average salary. The Coal & Allied Superannuation Plan No. 1 is closed to new membership. Employees contribute to the plans at various percentages of their salary and some other employees have their contributions paid by consolidated entity companies. Entities in the consolidated entity also contribute to the plans, at rates equal to or generally in excess of the employee's contributions. The contributions of the entities in the consolidated entity are legally enforceable in terms of the trust deeds of the plans.

An actuarial assessment of the Coal & Allied Superannuation Plan No. 1 was last made on 30 September 2003 by Watson Wyatt Australia Pty Ltd. Based on these assessments, the Directors are of the view that the assets of each of the funds are sufficient to satisfy all benefits that would have or have vested under the plans and voluntary or compulsory termination of employment of each employee.

	Consolidated	
	2003	2002
	\$000	\$000
Present value of employees' accrued benefits	2,869	3,027
Net market value of assets held by the Fund to meet future benefit payments	6,128	6,258
Excess of assets held by the Fund to meet future benefit payments over the present value of employees' accrued benefits	3,259	3,231
Vested benefits	2,808	3,027
Employer contributions to the fund	-	69
Movement in superannuation surplus	1,200	-
Defined benefit superannuation expense	1,200	69

Rio Tinto Superannuation Plan

The consolidated entity also participates in the Rio Tinto Staff Superannuation Fund which provides benefits on retirement, death, disablement or leaving service. The principal benefits are lump sum accumulation benefits. The fund also provides defined benefits to a closed group of members. Contributions made by entities in the consolidated entity are a percentage of salary as specified by the respective entity. The contributions of the entities in the consolidated entity are legally enforceable up to the date upon which such obligation is terminated pursuant to the Trust Deed and negotiated agreements.

Coal Industry Plans

The "Miners Superannuation Plan" provides defined benefits on retirement, disability or death. Due to a deficit that had arisen in the Fund, it was subject to major restructuring in January 1993. At that time, it was closed to new members and benefits of existing members were determined. Benefits will increase over time only to reflect movements in the C.P.I. The deficit in the Fund is being financed by contributions payable in respect of each mine worker, based on a percentage of an industry classification pay rate. The funding shortfall is intended to be extinguished by 2005.

In addition, contributions are made by certain entities in the consolidated entity to the "COSAF Superannuation Plan" based on a percentage of an industry classification pay rate. This fund provides accumulated benefits on resignation, retirement, disability or death.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 29. Employee entitlements (cont'd)

(ii) Long Service Leave (Coal Industry)

Commonwealth legislation enacted in 1992 established a statutory corporation to assume responsibility for funding of the payment of long service leave entitlements to persons employed in the black coal industry. The Corporation raised a levy on mine workers' wages and a reimbursement is made to employers when long service leave payments are made. The obligation for long service leave entitlements rests with the employer as part of conditions of employment. The centralised method of financing the payment of long service leave is consistent with the entitlement to be paid long service leave being based on cumulative employment within the coal industry rather than service with a single employer.

An unfunded liability for prior years' accrued entitlements was actuarially determined to exist as at June 2002. The levy on employers is directed to extinguish this past liability and meet the cost of current and future entitlements as they fall due and are paid.

Coal & Allied has recognised as a liability its share of the additional levy required to extinguish the fund shortfall. It is expected the shortfall will be extinguished by March 2006.

The consolidated entity's obligations to employees, including related on-costs, and the right of reimbursement from the statutory corporation have been included in the statement of financial position under the heading "Employee Entitlements" and comprise:

	Current		Non-current	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Assets				
Receivable from statutory corporation (Note 8)	11,124	3,126	22,427	29,589
Liabilities				
Employee Entitlements for Long Service Leave (Note 18)	9,740	3,642	28,186	32,554

(iii) Aggregate employee entitlements

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Provision for Employee Entitlements				
Current (Note 18)	50,659	26,383	-	-
Non-current (Note 18)	51,950	51,576	-	-
	102,609	77,959	-	-

(iv) Rio Tinto Share Saving Plan ("SSP")

Coal & Allied recognises as an employee benefit expense the 20% discount over the life of the option, under the Rio Tinto Share Savings Plan ("SSP"). The company assessed for 2003 that the discount to be amortised was \$120,798 per year. Refer to Note 1 (y) in the summary of significant accounting policies.

	Number	Number	Number	Number
(v) Employee numbers				
Employee numbers at reporting date	1,516	1,563	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 30. Remuneration of auditors

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity – PricewaterhouseCoopers*	660	508	589	472
Other auditors of controlled entities				
Ernst & Young	30	35	-	-
KPMG	43	40	-	-
Other	-	-	-	-
Remuneration for other services:				
Auditor of the parent entity – PricewaterhouseCoopers				
Taxation and accounting advice	228	475	20	390
Other auditors of controlled entities				
Ernst & Young – Internal Audit	320	272	-	-
Ernst & Young – Accounting services	479	317	307	-
KPMG – Accounting Services	-	25	-	-
	1,760	1,672	916	862

**PricewaterhouseCoopers is also the auditors of Rio Tinto Limited*

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 31. Contingent liabilities

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Bank Guarantees for Restoration Obligations				
<p>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 of \$69,745,000 (2002 - \$70,085,000) has been raised with regard to this obligation (Note 18).</p>				
Gross bank guarantees for restoration obligations	69,146	71,162	-	-
Bank Guarantee for Coal Supply Obligations				
<p>The consolidated entity has entered into agreements with Macquarie Generation, Delta Electricity, TNB Fuel Services Sdn Bhd and Taiwan Power Company.</p>				
Gross bank guarantee for coal supply obligations	11,815	1,542	-	-
Bank Guarantee as Security for Loans				
<p>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	-	-
Bank Guarantee for Other Miscellaneous Obligations				
<p>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>				
Gross bank guarantees for other miscellaneous obligations	521	453	-	-
Deed of Cross Guarantee				
<p>Under the terms of a deed of cross guarantee entered dated 9 May 1992 (as amended), Coal & 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 (Note 5).</p>				
Other				
<p>No material losses are anticipated in respect of any of the above contingent liabilities.</p>				

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 32. Commitments for expenditure

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Capital commitments				
Commitments for capital expenditure on mine development, plant and equipment, and buildings contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	8,636	11,184	-	-
Later than one year but not later than 5 years	3,900	3,900	-	-
Later than 5 years	-	-	-	-
	12,536	15,084	-	-
Lease commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	2,574	2,671	-	-
Later than one year but not later than 5 years	8,339	5,051	-	-
Later than 5 years	1,000	6,645	-	-
	11,913	14,367	-	-
Representing:				
Non-cancellable operating leases	51	274	-	-
Future finance charges on finance leases	11,862	14,093	-	-
	11,913	14,367	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 32. Commitments for expenditure (cont'd)

	Consolidated entity		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
<i>Operating leases</i>				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	16	235	-	-
Later than one year but not later than 5 years	34	39	-	-
Later than 5 years	-	-	-	-
Commitments not recognised in the financial statements	50	274	-	-
<i>Capitalised Finance Leases</i>				
Total lease liability				
Current (Note 16)	5,266	8,237	-	-
Non-current (Note 16)	43,924	49,248	-	-
Total	49,190	57,485	-	-
Finance lease commitments				
Commitments in relation to finance leases are payable as follows:				
Due within 1 year	7,823	10,673	-	-
Later than one year but not later than 5 years	24,435	26,319	-	-
Later than 5 years	28,794	34,586	-	-
Minimum lease payments	61,052	71,578	-	-
Less: Future finance charges	(11,862)	(14,093)	-	-
	49,190	57,485	-	-
Remuneration commitments				
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	-	-	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	204	-	-
	-	204	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 33. Related parties

Directors

The names of the persons who were Directors of Coal & Allied Industries Limited at any time during the financial year are set out in the Directors' report.

Information on remuneration of Directors is disclosed in note 27.

Information on the shares held by Directors is disclosed in the Directors' Report.

Loans to directors of wholly owned controlled entities

Loans to directors of entities in the consolidated entity and their director-related entities disclosed in note 8 comprise:

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
I S MacPhee – balance at year end	44	10	-	-
Loan principal received	-	4	-	-
Interest received	-	1	-	-

The loan had an interest rate of 10% and has been repaid since balance date.

Transactions within the wholly owned group

Coal & Allied Industries Limited is the parent entity in the wholly owned consolidated entity comprising the company and its wholly owned controlled entities. Loans to / from controlled entities are set out in note 8 and note 16. The ultimate parent entity is Rio Tinto Limited.

Transactions with other related parties

All transactions with other related parties are made on normal commercial terms and conditions.

Class of Related Party	Entity Transactions	Related Party	Transaction Type	Consolidated		Parent Entity	
				2003	2002	2003	2002
				\$000	\$000	\$000	\$000
Ultimate Parent Entity	Rio Tinto Coal (NSW) Pty Limited	Rio Tinto Energy Marketing Services	B	3,057	-	-	-
	Coal & Allied Industries Limited	Rio Tinto Finance Limited *	F	151	264	151	264
			G	8,092	16,565	8,092	16,565
	CNA Resources Limited	Rio Tinto Limited	K	1	-	-	-
	Coal & Allied Operations Pty Limited	Rio Tinto Limited	K	3	-	-	-
	Rio Tinto Coal (NSW) Pty Limited	Rio Tinto Limited	K	129	-	-	-
	Rio Tinto Coal (NSW) Pty Limited	Rio Tinto Procurement	C	45	-	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 33. Related parties (cont'd)

Class of Related Party	Entity Transactions	Related Party	Transaction Type	Consolidated		Parent Entity	
				2003 \$000	2002 \$000	2003 \$000	2002 \$000
Ultimate Parent Entity	Bengalla Mining Company	Rio Tinto Services Limited	A	147	-	-	-
			A	10	2,455	-	-
	Coal & Allied Industries Limited	Rio Tinto Services Limited	A	-	6	-	6
			B	52	61	52	61
			C	7	214	7	214
	Coal & Allied Operations Pty Limited	Rio Tinto Services Limited	A	2,886	2,675	-	-
			C	-	72	-	-
	Mount Thorley Operations Pty Limited	Rio Tinto Services Limited	A	993	1,070	-	-
	Rio Tinto Coal (NSW) Pty Limited	Rio Tinto Services Limited	A	734	543	-	-
			B	11	624	-	-
			C	56	117	-	-
			K	42	420	-	-
	Warkworth Mining Limited	Rio Tinto Services Limited	A	1,386	-	-	-
	Bengalla Mining Company	Rio Tinto Technical Resources Pty Limited	C	55	-	-	-
	Coal & Allied Industries Limited	Rio Tinto Technological Resources Pty Limited	C	-	2	-	2
	Coal & Allied Operations Pty Limited	Rio Tinto Technological Resources Pty Limited	C	461	95	-	-
Mount Thorley Operations Pty Limited	Rio Tinto Technological Resources Pty Limited	C	5	1	-	-	
Rio Tinto Coal (NSW) Pty Limited	Rio Tinto Technological Resources Pty Limited	C	159	1,790	-	-	
		K	46	-	-	-	
Warkworth Mining Limited	Rio Tinto Technological Resources Pty Limited	C	9	-	-	-	

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 33. Related parties (cont'd)

Class of Related Party	Entity Transactions	Related Party	Transaction Type	Consolidated		Parent Entity	
				2003 \$000	2002 \$000	2003 \$000	2002 \$000
Other Related Entities	Coal & Allied Operations Pty Limited	Port Waratah Coal Services Limited	I	36,952	32,428	-	-
	Mount Thorley Operations Pty Limited	Port Waratah Coal Services Limited	I	3,901	11,028	-	-
	Bengalla Mining Co Ltd	Port Waratah Coal Services Limited	I	10,429	4,528	-	-
	Warkworth Mining Ltd	Port Waratah Coal Services Limited	I	11,692	8,408	-	-
	Port Hunter Coal Management Pty Ltd	Port Waratah Coal Services Limited	J	1,275	1,250	-	-

Balances due to and from related parties as at 31 December 2003:

Amount owing to ultimate holding company	414,669	459,991	414,669	459,991
Amount owing to related entities	2,350	-	2,350	-
Amount owing by related entities	513	88	513	88
	417,532	460,079	417,532	460,079

Transactions types:

A – Insurance/financial services	E – Coal purchases	I – Coal handling charges paid
B – Management service fee	F – Interest received *	J – Management fee received
C – Consulting services	G – Interest paid *	K – Employee related costs
D – Coal sales	H – Shipping services	

* *Rio Tinto Services provides treasury services to the consolidated entity and Rio Tinto Finance Ltd provided financing during the year.*

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:

- (a) controlled entities – note 5
- (b) joint venture interests – note 21
- (c) associates – note 34

Ultimate parent entity

The ultimate parent entity is Rio Tinto Limited which at 31 December 2003 owned 75.71% (2002: 75.71%) of the issued ordinary shares of Coal & Allied Industries Limited.

Other transactions with Directors and Director related entities

Mr Docherty is a Director and Chairman of Hannover Life Re of Australasia Limited. This company provides insurance products to the Rio Tinto group on normal commercial terms and conditions.

Mr Davis entered into an employment contract on 16 March 2001 with Rio Tinto Coal (NSW) Pty Limited to provide management support services to the Moura Joint Venture during the year ended 31 December 2002. The contract was under normal terms and conditions and was terminated upon the completion of the sale of Coal & Allied's interests in the joint venture in May 2002.

	Consolidated		Parent Entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Management support services	-	88	-	-

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 34. Investments 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 (see note 11). 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 2003. Information relating to the associates is set out below.

Name of company	Principal activity	Ownership interest		Consolidated carrying amount		Parent entity carrying amount	
		2003	2002	2003	2002	2003	2002
		%	%	\$000	\$000	\$000	\$000
Port Waratah Coal Services Limited	The provision of coal receival, blending, stockpiling and ship loading services in the Port of Newcastle	36.5	36.5	78,453	79,504	26,043	26,043
						Consolidated	
						2003	2002
						\$000	\$000
Movements in carrying amounts of investments in associates							
Carrying amount at the beginning of the financial year						79,504	76,678
Share of profits from ordinary activities after income tax						11,106	9,578
Dividends received/receivable						(12,475)	(7,370)
Transfer from other investments						-	-
Other						318	618
Carrying amount at the end of the financial year						<u>78,453</u>	<u>79,504</u>
Results attributable to associates							
Profits from ordinary activities before income tax						15,991	13,375
Income tax expense						(4,885)	(3,797)
Profits from ordinary activities after income tax						<u>11,106</u>	<u>9,578</u>
Share of associates' expenditure commitments							
Capital commitments						841	1,290
Lease commitments						2,524	2,303
						<u>3,365</u>	<u>3,593</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						25,521	26,222
Assets						757,055	845,565
Liabilities						537,374	620,338

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 35. Reconciliation of operating profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
1. Reconciliation of net cash provided by operating activities				
Operating profit after income tax	121	159,740	6,256	(305)
Unrealised foreign exchange (gain) / losses	-	2,637	-	-
Depreciation	64,780	68,916	-	-
Amortisation	56,518	59,191	-	-
Deferred foreign currency losses expensed	479	2,708	-	-
(Gain) loss on sale of assets	(1,822)	(5,530)	-	174
Share of profits of associate not received as dividends	1,369	(2,207)	-	-
Change in operating assets and liabilities, net of effects from purchases and disposals of controlled entities				
Increase (decrease) in income tax payable	(51,687)	(52,323)	56,344	(1,438)
Decrease (increase) in deferred tax asset	(46,641)	7,475	(105,622)	(23)
Increase (decrease) in deferred tax payable	(14,598)	(3,109)	61,887	-
Decrease (increase) in current receivables	10,267	40,877	(51)	50
Decrease (increase) in current inventories	24,592	(19,023)	-	-
Decrease (increase) in other current assets	2,431	(281)	734	-
Decrease (increase) in non current receivables	6,868	(8,201)	(10,534)	(12)
Decrease (increase) in deferred mining costs	-	-	-	-
Increase (decrease) in current trade creditors	(19,585)	4,179	589	(2,380)
Increase (decrease) in other current liabilities and provisions	(14,256)	2,732	(53,223)	-
Increase (decrease) in non current liabilities and provisions	(2,185)	11,501	-	(72,335)
	16,651	269,282	(43,620)	(76,269)
2. Financing Facilities				
Facilities available at balance date were:				
Credit standby arrangements				
Total bank overdrafts and working capital facility	100,939	100,939	50,000	50,000
Used at balance date	10,341	11,469	10,338	11,250
Unused at balance date	90,598	89,470	39,662	38,750
Loan facilities				
Total facilities	534,188	707,464	498,130	619,031
Used at balance date	411,993	459,851	375,935	412,098
Unused at balance date	122,195	247,612	122,195	206,933

The bank overdraft and working capital facilities may be drawn down at any time. The current interest rates on these facilities range between 1.15% and 9.10%. The daylight overdraft facility of \$50 million is unsecured, the remaining overdraft facilities are joint venture facilities supported by guarantees provided by the joint venture participants. The working capital facility of \$50 million with Rio Tinto Finance Limited is unsecured.

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 35. Reconciliation of operating profit after income tax to net cash inflow from operating activities (cont'd)

2. Financing Facilities (cont'd)

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 \$50 million. This set-off arrangement is provided on an ongoing basis.

3. Other cash flows from operating activities

	Consolidated		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Coal handling fees	541	2,186	-	-
Sea freight refund	4,915	3,936	-	-
Rental receipts	3,281	5,915	-	-
Management fees	3,666	7,249	95	6,223
Coal compensation receipts	582	4,500	-	-
Coal handling services	14,793	12,734	-	-
Other	7,244	14,200	-	23
	35,022	50,720	95	6,246

Note 36. Non-cash financing and investing activities

	Consolidated entity		Parent entity	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Acquisition of plant and equipment by means of finance leases	-	10,864	-	-

Note 37. Earnings per share

	Consolidated	
	2003 Cent	2002 Cents
Basic earnings per share	0.1	184.4
Diluted earnings per share	0.1	184.4
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 per share for 2002 has been restated to reflect the change in the accounting policy for providing for employee entitlements. The earnings used to compute the ratio has been disclosed under note 1(w).

Coal & Allied Industries Limited and controlled entities
Notes to the financial statements
31 December 2003 (continued)

Note 38. 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 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.

Note 39. Event/s occurring after reporting date

Effective from 1 February 2004, Coal & Allied Industries Limited has agreed with Rio Tinto Limited to combine Coal & Allied's corporate and service functions with those of Pacific Coal Pty Ltd. Pacific Coal Pty Ltd (Rio Tinto Group: 100 per cent) has been renamed Rio Tinto Coal Australia Pty Ltd. Rio Tinto Coal Australia Pty Ltd will manage both Pacific Coal's existing assets, as well as Coal & Allied's assets in the Hunter Valley under a management services agreement.

A restructuring provision of \$15 million was provided for in the statement of financial position as at 31 December 2003. There are no further restructuring costs expected to be incurred in 2004.

Coal & Allied Industries Limited and controlled entities Directors Declaration

The directors declare that the financial statements and notes set out on pages 15 to 69:

- (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 company's and consolidated entity's financial position as at 31 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial 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 the company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 5 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 31.

Signed at Melbourne, this 4th day of March 2004 in accordance with a resolution of the Directors.



B F Horwood
Director

Coal & Allied Industries Limited
Shareholders Information as at 31 December 2003

Distribution of Shares

All issued ordinary shares and preference shares are listed on the Australian Stock Exchange and each carries one vote

	Ordinary	Preference
(a) 1 – 1,000	470	78
1,001 – 5,000	192	16
5,001 – 10,000	22	3
10,001 – 100,000	15	4
100,001 and over	11	2
	<hr/>	<hr/>
	710	103
(b) Number of members holding less than a marketable parcel of shares	16	54

The twenty largest ordinary shareholders held 85,789,515 stock units comprising 99.08% of the issued ordinary capital

Substantial Shareholders

	Units Held	Units Held
(a) Ordinary Shares		
Rio Tinto: Australian Coal Holdings Pty Limited Level 32, 55 Collins Street, Melbourne	65,555,831	
Mitsubishi Development Pty Limited Level 43, Gateway, 1 Macquarie Place, Sydney	8,829,288	
Nissho Iwai Corporation 3-1 Daiba 2 Chome, Minato-Ku, Tokyo	4,925,344	
(b) Preference Shares		
Rio Tinto: Australian Coal Holdings Pty Limited Level 32, 55 Collins Street, Melbourne		928,590
NRMA Nominees Pty Limited		769,448

Coal & Allied Industries Limited
Shareholders Information as at 31 December 2003

Twenty Largest Ordinary Shareholders

		No of Shares	% of Total
1	Australian Coal Holdings Pty Limited (Rio Tinto)	65,555,831	75.71
2	Mitsubishi Development Pty Limited	8,829,288	10.20
3	Nissho Iwai Corporation	4,925,344	5.69
4	RBC Global Services Australia Nominees Pty Limited	2,837,097	3.27
5	National Nominees Australia	1,507,300	1.74
6	JP Morgan Nominees Australia Limited	850,781	0.98
7	Cogent Nominees Pty Limited	371,230	0.43
8	Citicorp Nominees Pty Limited	294,353	0.34
9	Westpac Custodian Nominees	229,987	0.27
10	Permanent Trustee Australia Limited	91,449	0.11
11	L J R McWilliam Estates Pty Limited	70,000	0.08
12	B S Nominees Pty Limited	46,992	0.05
13	Palmerston Pty Limited	36,041	0.04
14	Fijolin Pty Limited	32,798	0.04
15	Marlen Pty Limited	25,313	0.03
16	Thomas Nash Phillips	21,600	0.02
17	Kingston (1953) Pty Limited	17,742	0.02
18	Miro Securities Limited	16,198	0.02
19	ANZ Nominees Limited	15,671	0.02
20	John Hedley Martin	14,500	0.02
		<hr/> 85,789,515	<hr/> 99.08

Coal & Allied Industries Limited Statistical Information

Statistical Information

	2003	2002
	000 Tonnes	000 Tonnes
Total saleable production		
Hunter Valley Operations ¹	12,008	12,625
Mount Thorley Operations ²	3,152	4,292
Bengalla ³	6,203	5,385
Moura ⁴	-	2,399
Narama ⁵	-	370
Ravensworth East ⁶	-	387
Warkworth ⁷	5,869	6,882
	27,232	32,340

¹ 100% attributable to the consolidated entity.

² 80% attributable to the consolidated entity.

³ 40% attributable to the consolidated entity.

⁴ Effective 28 May 2002, Coal & Allied sold its 55% interest in the Moura Joint Venture.

⁵ Effective 14 March 2002, Coal & Allied sold its 50% interest in the Narama Joint Venture.

⁶ Effective 14 March 2002, Coal & Allied sold its 100% interest in the Ravensworth East Joint Venture.

⁷ 56% attributable to the consolidated entity.

Sales

By country / region

Japan	14,876	16,523
Asia (excluding Japan)	7,388	8,512
Europe	2,349	2,165
Other	512	297
Domestic	2,762	4,052
	27,887	31,549

By product

Export steaming	20,316	20,484
Domestic steaming	2,762	4,052
Coking	4,809	7,013
	27,887	31,549

Coal & Allied Industries Limited Statistical Information

Coal Reserves

Estimates of coal reserves were produced in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves, September 1999 (the JORC Code). The JORC Code envisages the use of reasonable investment assumptions, including the use of projected long-term commodity prices, in calculating reserve estimates.

Coal reserves in this report are based on information compiled by a Competent Person (as defined by JORC), who is a full time employee. The person has had a minimum of five years relevant estimation experience and is a member of a recognised professional body whose members are bound by a professional code of ethics. The Competent Person consents to the inclusion in this report of information they have provided in the form and context in which it appears.

The estimated coal reserve figures in the following table are as of 31 December 2003. Summary data for 2002 are shown for comparison. Metric units are used throughout.

	Type of Mine ¹	Coal Type ²	Recoverable Reserves Total ³	% Yield to give marketable reserves ³	Proved	Probable	Marketable reserves ³		Marketable coal quality	
							Total 2003	Total 2002	Calorific value ⁴	Sulphur content
			millions of tonnes		millions of tonnes	millions of tonnes	millions of tonnes	MJ/kg	%	
Operational Mines										
Bengalla	O/C	SC	204	81	104	62	166	185	28.30	0.50
Hunter Valley Operations	O/C	SC+MC	465	70	249	77	326	352	28.90	0.59
Mount Thorley Operations	O/C	SC+MC	42	64	27	-	27	30	28.20	0.53
Warkworth	O/C	SC+MC	332	65	216	-	216	213	29.35	0.53
Undeveloped Reserves⁵										
Maules Creek	O/C	SC+MC	160	73	-	117	117	117	29.90	0.40
Mount Pleasant ⁶	O/C	SC	459	76	306	44	350	285	26.73	0.51
Oaklands	O/C	SC	400	100	-	400	400	400	20.90	0.25

¹ Mining methods: O/C = open cut.

² Coal type: SC = steam/thermal coal, MC = metallurgical/coking coal.

³ Coal reserves are shown as both recoverable and marketable. The yield factors shown reflect the impact of further processing, where necessary, to provide marketable coal.

⁴ Analyses of coal have been analysed on an "Air Dried" moisture basis according to Australian Standards (AS). MJ/kg = megajoules per kilogram.

⁵ The term 'undeveloped reserves' is used here to describe material that is economically viable on the basis of technical and economic studies but for which mining and processing permits have yet to be requested or obtained. There is a reasonable, but not absolute, certainty that the necessary permits will be issued and that mining can proceed when required.

⁶ Marketable reserves at Mount Pleasant have increased as a consequence of additional project studies which led to the development of a new resource model, and indicated higher yield as a result of improved processing methods and the planned mining of higher quality seams.

Coal & Allied Industries Limited
Statistical Information

Coal Resources

The following table contains details of the other mineralisation that has the potential to become economic in the future but which is not yet classified as proved or probable reserves. This material is defined as mineral resources under the JORC Code. Estimates of such material are based largely on geological information with only preliminary consideration of mining, economic and other factors. While in the judgement of the Competent Person there are realistic expectations that all or part of the mineral resources will eventually become proved or probable reserves, there is no guarantee that this will occur as the result depends on further technical and economic studies and prevailing economic conditions in the future. Resources are stated as additional to the reserves reported above.

	Likely mining method ¹	Coal Type ²	Coal resources at end 2003			Total resources	
			Measured millions of tonnes	Indicated millions of tonnes	Inferred millions of tonnes	2003 millions of tonnes	2002 millions of tonnes
Bengalla ³	O/C+U/G	SC	93	193	-	286	246
Hunter Valley Operations	O/C	SC+MC	537	787	599	1,923	1,925
Maules Creek	O/C+U/G	SC+MC	520	-	-	520	520
Mount Pleasant ⁴	O/C+U/G	SC+MC	200	218	281	699	623
Mount Thorley Operations	U/G	SC+MC	15	152	-	167	167
Oaklands	O/C	SC	880	-	-	880	880
Vickery	O/C+U/G	SC+MC	300	-	-	300	300
Warkworth	O/C+U/G	SC	329	223	201	753	770

¹ Mining methods: O/C = open cut; U/G = underground.

² Coal type: SC = steam/thermal coal, MC = metallurgical/coking coal.

³ Resources at Bengalla have increased as a result of the development of a revised mine plan.

⁴ Resources at Mount Pleasant have increased as a result of the development of a new resource model which includes additional coal.