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# **Cumnock Coal Limited**

**ABN 32 051 493 602**

**Condensed Financial Report**  
**For the half-year ended 30 June 2007**



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# Directors' Report

Your directors present their report on the consolidated entity of Cumnock Coal Limited and its controlled entity for the half-year ended 30 June 2007.

## DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Anthony Clark AM	Non Executive Independent Chairman
Peter Coates	Executive Director
John Fahey AC	Non Executive Independent Director
Earl Melamed	Non Executive Director
Osamu Tano	Non Executive Director

## REVIEW AND RESULTS OF OPERATIONS

During the first half of 2007 the Hunter Valley coal chain was impacted by significant shipping queues at the Port of Newcastle, rail congestion and the impact of the severe storm event in June. These factors contributed to disruption of customer shipping programs resulting in reduced sales volumes and increased demurrage charges across the industry. Whilst USD coal prices have increased from 2006 to 2007, this increase has been predominantly offset by the impact of the strengthening Australian Dollar.

Reduced sales volumes, combined with increased unit costs, were the major contributor to Cumnock's decline in profitability which saw consolidated after tax net profit for the period decrease to \$5.4M compared to \$9.9M for the corresponding period in 2006.

Revenue for the half year was \$26.1M compared to \$49.6M in the first half of 2006, a decrease of 47.3%. This reduction in revenue was attributable to reduced sales volume due to the rail and port congestion, and the timing of sales between first and second half year on year. Ex mine sales were 309kt in the first half of 2007 compared to 624kt in the corresponding period of 2006. Average USD dollar selling prices improved by 9.6% when compared to the same period in the prior year, however average Australian dollar selling prices only improved by 4.0% due to the exchange rate strengthening in 2007.

Raw coal production decreased from 716kt to 686kt for the first six months. Saleable production for the period decreased to 493kt, down 6.5% from 2006. The lower saleable output is the result of lower raw coal production and lower yields which have been impacted by higher ROM ash levels and changed washing processes.

Higher demurrage charges due to the port and rail congestion, combined with the continuing impact hyperinflation on the mining sector, contributed to higher unit costs per tonne and hence reduced margin.

The open cut mine and CHPP continue to be operated under contract by Downer EDI Mining (Roche Mining).

## SUBSEQUENT EVENTS

On 17 July 2007, Xstrata Coal, through Helios Australia Pty Limited, a related body corporate of Xstrata Coal Pty Limited, entered into a Merger Implementation Agreement (MIA) with the Company for the acquisition of 100% of the shares in the Company for a cash consideration of A\$0.57 per share, or a total of approximately A\$23 million for the shares that Xstrata Coal does not already own.

# Directors' Report (continued)

## SUBSEQUENT EVENTS (CONTINUED)

Under the MIA, the Company will undertake an equal capital reduction to cancel all the shares in the Company and simultaneously issue one new ordinary share to Xstrata Coal. The transaction requires approval by Xstrata Coal, Itochu and 50% of the non-Xstrata and non-Itochu shareholders present in person or by proxy at the General Meeting of Cumnock shareholders to be held on 24 August 2007.

## ROUNDING

The amounts contained in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

## AUDITOR'S INDEPENDENCE DECLARATION

The directors have obtained the following independence declaration from our auditors, Ernst & Young.

In relation to our review of the financial report of Cumnock Coal Limited for the half-year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



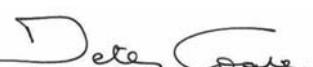
Ernst & Young



Michael Elliott  
Partner  
Sydney  
17 August 2007

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).

Signed in accordance with a resolution of the directors.

  
Anthony Clark  
Director  
Peter Coates  
Director  
Sydney, 17 August 2007

To the members of Cumnock Coal Limited

## **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Cumnock Coal Limited and the entity it controlled during the half-year, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

### *Directors' Responsibility for the Half-year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report to ensure that it is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of Cumnock Coal Limited and the entity it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

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### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Cumnock Coal Limited and the entity it controlled during the period, is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

*Ernst & Young*

Ernst & Young

*M. Elliott*

Michael Elliott  
Partner  
Sydney  
17 August 2007

# Income Statement

FOR THE HALF-YEAR ENDED 30 JUNE 2007

	Notes	CONSOLIDATED	
		HALF-YEAR	
		2007	2006
		\$'000	\$'000
Sales Revenue		23,998	48,214
Finance income	3(b)	2,140	1,403
		26,138	49,617
Cost of sales	3(c)	(17,231)	(33,902)
<b>Gross profit</b>		8,907	15,715
Other income	3(a)	562	623
Administrative expenses		(771)	(801)
Marketing expenses		(547)	(1,145)
<b>Profit before tax and finance costs</b>		8,151	14,392
Finance costs	3(b)	(404)	(158)
Share of profit of associate		2	2
<b>Profit before income tax</b>		7,749	14,236
Income tax expense		(2,323)	(4,260)
<b>Profit after tax</b>		5,426	9,976
<b>Profit attributable to members of the parent</b>		5,426	9,976
Earnings per share (cents per share)			
– basic earnings per share for the half-year		2.17	3.98
– diluted earnings per share for the half-year		2.17	3.98
– dividends paid per share	4	-	5.00

# Balance Sheet

AS AT 30 JUNE 2007

	Notes	CONSOLIDATED	
		As at 30 June 2007	As at 31 December 2006
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		64,236	64,663
Trade and other receivables		2,739	7,084
Inventories		8,952	1,133
Prepayments		74	-
Foreign exchange contracts		-	514
<b>Total Current Assets</b>		<b>76,001</b>	<b>73,394</b>
<b>Non-current Assets</b>			
Other financial assets		4	4
Investment in associate accounted for using the equity method		41	41
Deferred income tax asset		3,114	2,872
Property, plant and equipment		9,339	8,413
<b>Total Non-current Assets</b>		<b>12,498</b>	<b>11,330</b>
<b>TOTAL ASSETS</b>		<b>88,499</b>	<b>84,724</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		6,371	8,603
Income tax payable		1,818	1,157
<b>Total Current Liabilities</b>		<b>8,189</b>	<b>9,760</b>
<b>Non-current Liabilities</b>			
Trade and other payables		105	314
Deferred income tax liabilities		742	450
Provisions		7,121	6,924
<b>Total Non-current Liabilities</b>		<b>7,968</b>	<b>7,688</b>
<b>TOTAL LIABILITIES</b>		<b>16,157</b>	<b>17,448</b>
<b>NET ASSETS</b>		<b>72,342</b>	<b>67,276</b>
<b>EQUITY</b>			
Issued capital	5	98,633	98,633
Accumulated losses		(26,291)	(31,717)
Other Reserves		-	360
<b>TOTAL EQUITY</b>		<b>72,342</b>	<b>67,276</b>

# Cash Flow Statement

FOR THE HALF-YEAR ENDED 30 JUNE 2007

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>HALF-YEAR</i>	
		<i>2007</i>	<i>2006</i>
		<i>\$'000</i>	<i>\$'000</i>
<b>Cash flows from operating activities</b>			
Receipts from customers		30,303	43,263
Payments to suppliers and employees		(28,808)	(32,267)
Interest received		1,891	977
Interest paid		(208)	-
Income tax paid		(1,457)	-
Other		563	625
<b>Net cash flows from operating activities</b>		<u>2,284</u>	<u>12,598</u>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment		(2,711)	(4)
<b>Net cash flows used in investing activities</b>		<u>(2,711)</u>	<u>(4)</u>
<b>Cash flows used in financing activities</b>			
Equity dividends paid		-	(12,526)
<b>Net cash flows used in financing activities</b>		<u>-</u>	<u>(12,526)</u>
Net (decrease) / increase in cash and cash equivalents		(427)	68
Cash and cash equivalents at beginning of period		64,663	47,571
<b>Cash and cash equivalents at end of period</b>	9	<u>64,236</u>	<u>47,639</u>

# Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 30 JUNE 2007

## CONSOLIDATED

	<i>Issued capital</i> \$'000	<i>Accumulated losses</i> \$'000	<i>Other Reserves</i> \$'000	<i>Total</i> \$'000
<b>At 1 January 2006</b>	98,633	(36,794)	(459)	61,380
Net unrealised gains/(losses) on cash flow hedges	-	-	444	444
Total income and expense for the 6 months recognised directly in equity	-	-	444	444
Profit for the period	-	9,976	-	9,976
Total income and expense for the period	-	9,976	444	10,420
Equity dividends	-	(12,526)	-	(12,526)
<b>At 30 June 2006</b>	98,633	(39,344)	(15)	59,274

## At 1 January 2007

Net unrealised gains/(losses) on cash flow hedges	-	-	(360)	(360)
Total income and expense for the 6 months recognised directly in equity	-	-	(360)	(360)
Profit for the period	-	5,426	-	5,426
Total income and expense for the period	-	5,426	(360)	5,066

## At 30 June 2007

	<i>Issued capital</i> \$'000	<i>Accumulated losses</i> \$'000	<i>Other Reserves</i> \$'000	<i>Total</i> \$'000
<b>At 1 January 2007</b>	98,633	(31,717)	360	67,276
Net unrealised gains/(losses) on cash flow hedges	-	-	(360)	(360)
Total income and expense for the 6 months recognised directly in equity	-	-	(360)	(360)
Profit for the period	-	5,426	-	5,426
Total income and expense for the period	-	5,426	(360)	5,066
<b>At 30 June 2007</b>	98,633	(26,291)	-	72,342

# Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 30 JUNE 2007

## 1 CORPORATE INFORMATION

The consolidated financial report of Cumnock Coal Limited for the half year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 14 August 2007.

Cumnock Coal Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of Cumnock Coal Limited as at 31 December 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Cumnock Coal Limited and its controlled entity during the half-year ended 30 June 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

### (a) Basis of preparation

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The amounts contained in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

### (b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 31 December 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 January 2007, as described in Note 2(d).

### (c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Cumnock Coal Limited and its subsidiary as at 30 June 2007 ('the Group').

# Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 30 JUNE 2007

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Changes in accounting policies

The company has reviewed the new and amended Australian Accounting Standards and UIG Interpretations noting they will not have a material impact.

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# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 30 JUNE 2007

*CONSOLIDATED*

*HALF-YEAR*

2007	2006
\$'000	\$'000

### 3 REVENUE AND EXPENSES

#### (a) Other income

Royalty income	275	608
Sundry	287	15
	<b>562</b>	<b>623</b>

#### (b) Finance (costs)/income

Restoration provision discount adjustments	(196)	(158)
Interest paid - 3rd parties	(208)	-
Total finance costs	<b>(404)</b>	<b>(158)</b>
Bank interest received and receivable	2,140	1,403
Total finance income	<b>2,140</b>	<b>1,403</b>

#### (c) Other expenses

Included in cost of sales:		
Depreciation	1,785	1,599
Net foreign exchange differences	<b>334</b>	<b>(752)</b>
Costs of inventories recognised as an expense	<b>17,231</b>	<b>33,902</b>

### 4 DIVIDENDS PAID AND PROPOSED

#### Equity dividends on ordinary shares:

Dividends paid during the half-year

Final unfranked dividend for financial year 31 December 2006 [nil] (2005: 5 cents per share)	-	<b>12,526</b>
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There were no dividends proposed during the half-year ended 30 June 2007 (2006: Nil).

<i>Jun-07</i>	<i>Dec-06</i>
\$'000	\$'000

### 5 ISSUED CAPITAL

#### *Ordinary shares*

250,530,960 fully paid ordinary shares (2006: 250,530,960)	<b>98,633</b>	<b>98,633</b>
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There was no movement in ordinary shares during the period.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 30 JUNE 2007

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### 6 SEGMENT REPORTING

The Group derives revenue solely from coal mining and associated activities.

The Group operates in the Hunter Valley, NSW, Australia.

### 7 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

### 8 EVENTS AFTER THE BALANCE SHEET DATE

On 17 July 2007, Xstrata Coal, through Helios Australia Pty Limited, a related body corporate of Xstrata Coal Pty Limited, entered into a Merger Implementation Agreement (MIA) with the Company for the acquisition of 100% of the shares in the Company for a cash consideration of A\$0.57 per share, or a total of approximately A\$23 million for the shares that Xstrata Coal does not already own.

Under the MIA, the Company will undertake an equal capital reduction to cancel all the shares in the Company and simultaneously issue one new ordinary share to Xstrata Coal. The transaction requires approval by Xstrata Coal, Itochu and 50% of the non-Xstrata and non-Itochu shareholders present in person or by proxy at the General Meeting of Cumnock shareholders to be held on 24 August 2007.

### 9 ADDITIONAL INFORMATION

#### Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

	<i>CONSOLIDATED</i>	
	<i>Jun-07</i> \$'000	<i>Jun-06</i> \$'000
Cash at bank and in hand	8,820	7,472
Short-term deposits	55,416	40,167
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	64,236	47,639

# Directors' Declaration

In accordance with a resolution of the directors of Cumnock Coal Limited, I state that:

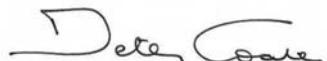
In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position as at 30 June 2007 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 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.

On behalf of the Board



Anthony Clark  
Director



Peter Coates  
Director

Sydney, 17 August 2007