



Notice to Australian Securities Exchange

24 October 2011

Release of Scheme Booklet

On 21 October 2011, the Federal Court of Australia approved the convening of a meeting of shareholders of Coal & Allied Industries Limited to consider the scheme of arrangement (**Scheme**) under which it is proposed that Hunter Valley Resources Pty Ltd will acquire all of the shares in Coal & Allied that are not already held by Rio Tinto Limited, Mitsubishi Development Pty Ltd or entities associated with them, for a cash consideration of \$125.00 per Coal & Allied share, less the cash amount of any special dividend (**Special Dividend**) of up to \$8.00 per Coal & Allied share which Coal & Allied announces that it will pay (**Scheme Consideration**).

The General Meeting and Scheme Meeting

In addition to the Scheme meeting referred to above, a general meeting is being convened to seek Coal & Allied shareholders' approval of the joint bidding arrangements entered into between Australian Coal Holdings Pty Limited (the wholly owned subsidiary of Rio Tinto that holds Coal & Allied shares), Mitsubishi Development and Hunter Valley Resources, for the purposes of the acquisition of Coal & Allied shares (**Joint Bidding Arrangements**).

The general meeting will be held at 10.00am on 28 November 2011 at the Sofitel Wentworth, 61-101 Phillip Street, Sydney, NSW, 2000 (**General Meeting**). The Scheme meeting will be held immediately following the conclusion of the General Meeting at the same location (**Scheme Meeting**).

One of the conditions of the Scheme is that the Joint Bidding Arrangements are approved by Coal & Allied shareholders. Therefore, in order for the Scheme to proceed, the resolution to approve the Scheme and the resolution to approve the Joint Bidding Arrangements (together, the **Resolutions**) must both be passed by Coal & Allied shareholders.

Scheme Booklet and Independent Expert's Report

The Court also approved the form of a scheme booklet to be sent to Coal & Allied shareholders in connection with the Scheme (**Scheme Booklet**). The Scheme Booklet is attached to this announcement. It includes a concise version of the report prepared by Lonergan Edwards & Associates Limited (**Independent Expert**), whom Coal & Allied engaged to assess whether the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders. The full version of that report, to which the technical specialist's report of AMC Consultants Pty Ltd is appended, is also attached to this announcement.

The Independent Expert has concluded that the Scheme is both fair and reasonable and is in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development), in the absence of a superior proposal. The Independent Expert has valued 100% of the Coal & Allied shares on a controlling interest basis at between \$111.20 and \$128.35 per Coal & Allied share as compared to the cash consideration offered by Hunter Valley Resources of \$125.00 per Coal & Allied share.

The Scheme Booklet has been registered by the Australian Securities and Investments Commission, as required by the *Corporations Act 2001 (Cth)*. Coal & Allied expects to commence dispatch of the Scheme Booklet to Coal & Allied shareholders by no later than 28 October 2011.



Recommendation of the Recommending Directors

It is the unanimous recommendation of the recommending directors of Coal & Allied (Christopher Renwick, Bryan Davis and Annabelle Chaplain) that, for the reasons set out and explained in the Scheme Booklet, Coal & Allied shareholders approve the Scheme by voting in favour of the Resolutions, in the absence of a superior proposal.

Scheme implementation steps

The key steps for the implementation of the Scheme, and the indicative dates on which it is anticipated they will take place, are set out below.

28 October 2011	Dispatch of Scheme Booklet to Coal & Allied shareholders
28 November 2011 commencing at 10:00am (Sydney time)	The General Meeting and the Scheme Meeting
28 November 2011	Special Dividend announced*
30 November 2011	Hearing of the Federal Court of Australia to approve the Scheme
1 December 2011	Date on which the Scheme will take effect
8 December 2011 at 7:00pm (Sydney time)	Record date for determining Coal & Allied shareholders entitled to receive the Special Dividend*
12 December 2011 at 7:00pm (Sydney time)	Record date for determining Coal & Allied shareholders entitled to receive the Scheme Consideration
16 December 2011	Expected date for payment of the Scheme Consideration and Special Dividend*

The above dates are indicative only and are subject to change.

* Subject to approval of the Scheme, receipt of a draft ruling from the Australian Taxation Office and the determination of the Coal & Allied board.

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This is an important document and requires your immediate attention. You should read this document carefully and in its entirety before deciding how to vote on the Resolutions. If you are in any doubt as to what you should do, you should consult your legal, investment or other professional advisor.

Scheme Booklet

In relation to a recommended proposal from Hunter Valley Resources, a bid vehicle jointly owned by Rio Tinto and Mitsubishi Development, to acquire all of the ordinary shares in Coal & Allied not held by the Rio Tinto Group or Mitsubishi Development by way of scheme of arrangement

**THE RECOMMENDING DIRECTORS UNANIMOUSLY RECOMMEND
THAT YOU APPROVE THE SCHEME BY VOTING IN FAVOUR OF THE
RESOLUTIONS, IN THE ABSENCE OF A SUPERIOR PROPOSAL**

If, after reading this Scheme Booklet, you require any further information, please call the Coal & Allied transaction information line on **1300 882 217** (within Australia) or **+61 2 9191 5971** (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday (Sydney time).

If you have sold all of your Coal & Allied Shares, please disregard this document.

FINANCIAL ADVISERS

Greenhill Caliburn

LEGAL ADVISERS

**GILBERT
TOBIN**

L A W Y E R S

Coal & Allied Industries Limited
ACN 008 416 760



Important notices

Defined terms

A number of defined terms are used in this Scheme Booklet, the meanings of which are set out in Section 7.

Purpose of this Scheme Booklet

The purpose of this Scheme Booklet is to explain the terms of the Scheme and the manner in which the Resolutions will be considered and, if those resolutions are approved by the requisite majorities of Coal & Allied Shareholders and if the Scheme is approved by the Court, how the Scheme will be implemented and to provide information as is prescribed or otherwise material to the decision of Coal & Allied Shareholders whether or not to vote in favour of the Resolutions.

This Scheme Booklet includes:

- the explanatory statement required to be sent to Coal & Allied Shareholders (other than Excluded Shareholders) in relation to the Scheme pursuant to section 412(1) of the Corporations Act; and
- the notice of meeting required to be sent to Coal & Allied Shareholders in relation to the Section 611 Item 7 Resolution.

You should read this Scheme Booklet carefully and in its entirety before making a decision on how to vote on the Resolutions.

Independent Expert's Report and Technical Specialist's Report

A concise version of the Independent Expert's Report is set out at Attachment A. The full version of that report, together with the Technical Specialist's Report and Scheme Implementation Agreement, is available online at the Coal & Allied Website and the ASX Website. Coal & Allied Shareholders can also obtain a copy of these documents at no cost by contacting the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday.

Investment decisions

This Scheme Booklet is intended for Coal & Allied Shareholders collectively and does not take into account the investment objectives, financial situation, tax position or particular needs of each security holder or any other person. This Scheme Booklet should not be relied on as the sole basis for any investment decision in relation to Coal & Allied Shares. Independent advice should be sought before any such investment decision is made.

Responsibility for information

Coal & Allied has prepared, and is responsible for, the Coal & Allied Information. Hunter Valley Resources, ACH and Mitsubishi Development do not assume any responsibility for the accuracy or completeness of any of the Coal & Allied Information, nor do any of their respective directors, officers or advisors.

Hunter Valley Resources has prepared, and is responsible for, the Hunter Valley Resources Information. Coal & Allied does not assume any responsibility for the accuracy or completeness

of any of the Hunter Valley Resources Information, nor do any of its directors, officers or advisors.

Lonergan Edwards has prepared, and is responsible for, the Independent Expert's Report (other than the Technical Specialist's Report). Coal & Allied, Hunter Valley Resources, ACH and Mitsubishi Development do not assume any responsibility for the accuracy or completeness of any of the information in the Independent Expert's Report, nor do any of their respective directors, officers or advisors.

AMC has prepared, and is responsible for, the Technical Specialist's Report. Coal & Allied, Hunter Valley Resources, ACH and Mitsubishi Development do not assume any responsibility for the accuracy or completeness of any of the information in the Technical Specialist's Report, nor do any of their respective directors, officers or advisors.

PricewaterhouseCoopers has prepared, and is responsible for, the information in Section 5. Coal & Allied, Hunter Valley Resources, ACH and Mitsubishi Development do not assume any responsibility for the accuracy or completeness of any of the information in Section 5, nor do any of their respective directors, officers or advisors, except the information given by Coal & Allied or its directors or officers to PricewaterhouseCoopers for the purposes of the preparation of the report in Section 5.

Role of ASIC and ASX

A copy of this Scheme Booklet has been examined by ASIC pursuant to section 411(2)(b) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. Coal & Allied has asked ASIC to provide a statement, in accordance with section 411(17) (b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court on the Second Court Date.

A copy of this Scheme Booklet has also been lodged with ASX.

None of ASIC, ASX or their respective officers take any responsibility for the contents of this Scheme Booklet.

Important notice associated with Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved this Scheme Booklet required to accompany the Notice of Scheme Meeting (Attachment E) does not mean that the Court:

- has formed any view as to the merits of the Scheme or as to how Coal & Allied Shareholders should vote at the Scheme Meeting (on this matter Coal & Allied Shareholders must reach their own decision); or
- has prepared, or is responsible for the content of, this Scheme Booklet.

Notice to persons outside Australia

This Scheme Booklet has been prepared having regard to Australian disclosure requirements. These requirements may be different from those in other jurisdictions. This Scheme Booklet does not constitute an offer to, or a solicitation of an offer from, Coal & Allied Shareholders in any jurisdiction.

Forward looking statements

Certain statements in this Scheme Booklet relate to the future. Such forward looking statements, which include all information relating to the performance of Coal & Allied, are not based solely on historical facts but rather reflect the current expectations of Coal & Allied (in relation to the Coal & Allied Information) and Hunter Valley Resources (in relation to the Hunter Valley Resources Information). Statements that describe Coal & Allied's, Hunter Valley Resources', Rio Tinto's or Mitsubishi Development's objectives, plans, goals or expectations, estimates of reserves and resources, timelines for development and production and future costs may be forward looking statements.

Forward looking statements involve known and unknown risks, uncertainties and assumptions and are subject to a variety of other factors that could cause the actual results or performance of Coal & Allied to be materially different from what is expressed or implied by such statements. Some of the risks that Coal & Allied Shareholders may be exposed to in relation to the Scheme are set out in Section 3.7. Forward looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which Coal & Allied, Hunter Valley Resources, Rio Tinto and Mitsubishi Development will operate in the future, including the price of coal and other minerals, anticipated costs and ability to achieve goals. Accordingly, undue reliance should not be placed on forward looking statements.

Coal & Allied Shareholders should note that the historical performance of Coal & Allied is no assurance of Coal & Allied's future performance. Other than as required by law, none of Coal & Allied, Hunter Valley Resources, Rio Tinto or Mitsubishi Development or their respective directors, officers or advisors represents that, or gives any assurance or guarantee that, the occurrence of events expressed or implied in any forward looking statements will actually occur.

The forward looking statements in this Scheme Booklet reflect views held only at the date of this Scheme Booklet.

Estimates, targets and forecasts

Unless expressly stated otherwise, all references in this Scheme Booklet to estimates, targets and forecasts (and derivations of the same) are references to estimates, targets and forecasts by Coal & Allied, Hunter Valley Resources, Rio Tinto and Mitsubishi Development management (as applicable). Estimates, targets and forecasts are based on views held only at the date of this Scheme Booklet.

Each of Coal & Allied, Hunter Valley Resources, Rio Tinto and Mitsubishi Development believes that the estimates, targets and forecasts in this Scheme Booklet that are attributable to it have been made on reasonable grounds and that the assumptions on which those estimates, targets and forecasts are based are reasonable. Having said this, Coal & Allied Shareholders are cautioned that the estimates, targets and forecasts are subject to a variety of factors that are likely to cause actual results to vary from them, and such variations may be material.

Privacy and personal information

Coal & Allied and Hunter Valley Resources, and their respective registries and agents, may need to collect personal information to implement the Scheme. The personal information may include the names, contact details, bank account details and other details of Coal & Allied Shareholders, as well as the names and contact details of individuals appointed by Coal & Allied Shareholders as proxies, attorneys or corporate representatives to attend and vote at the Meetings.

Coal & Allied Shareholders who are individuals and other individuals in respect of whom personal information is collected have certain rights to access the personal information collected about them. An individual who wishes to exercise any of these rights should contact the Coal & Allied Registry on 1300 850 505 (from within Australia) or +61 3 9415 4000 (from outside Australia).

The personal information described above may be disclosed to Coal & Allied's and Hunter Valley Resources' registries and stock transfer agents, securities brokers and third party service providers (including print and mail service providers). Personal information may also be used to contact Coal & Allied Shareholders in relation to the Scheme.

Third parties who receive personal information in the course of providing the above services will be reminded of their obligations to use the personal information only for the purposes set out above and to protect the information according to applicable statutory and legal requirements.

Coal & Allied Shareholders who appoint an individual as their proxy, attorney or corporate representative to attend and vote at a Meeting should inform him or her of the matters outlined above.

Maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless expressly stated otherwise, all data contained in such diagrams, charts, maps, graphs and tables is based on information available at the date of this Scheme Booklet.

References to time

Unless expressly stated otherwise, all references in this Scheme Booklet to time relate to the time in Sydney, New South Wales, Australia.

References to currency

Unless expressly stated otherwise, all references in this Scheme Booklet to "\$", "A\$" or "AUD" are references to Australian currency, and all references to "US\$" or "USD" are references to United States currency, all references to "£" are references to United Kingdom currency, and all references to "¥" or "JPY" are references to Japanese currency.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

Coal & Allied transaction information line

If you have any questions about the Scheme or the Resolutions, you may call the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday.

Date

This Scheme Booklet is dated 24 October 2011.

For personal use only





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Chairman's Letter

24 October 2011

Dear Shareholder,

On 26 August 2011, Coal & Allied entered into a Scheme Implementation Agreement with Hunter Valley Resources, a company owned jointly by Rio Tinto and Mitsubishi Development under which it is proposed that Hunter Valley Resources will acquire, by way of a Court approved scheme of arrangement, all of the Coal & Allied Shares that are not already held by Rio Tinto, Mitsubishi Development or entities associated with them.

If the Scheme is approved and implemented, you will receive \$125.00 cash for each Coal & Allied Share you hold as at the Scheme Record Date, scheduled to be 7.00pm on 12 December 2011, less the cash amount of any Special Dividend which Coal & Allied announces before the Scheme Record Date.

Under the Scheme Implementation Agreement, Coal & Allied will pay a fully franked Special Dividend of up to \$8.00 per Coal & Allied Share, subject to the necessary approvals for the Scheme being obtained and Coal & Allied obtaining a ruling from the ATO.

If Coal & Allied announces before the Scheme Record Date a Special Dividend of up to \$8.00 per Coal & Allied Share, Coal & Allied Shareholders who hold Coal & Allied Shares as at the Special Dividend Record Date will be paid the Special Dividend and the cash consideration per Coal & Allied Share payable under the Scheme will be reduced by the cash amount of the Special Dividend.

The above proposal follows negotiations between a committee of Coal & Allied Directors, comprising Bryan Davis (Chairman), Annabelle Chaplain and me, Rio Tinto, Mitsubishi Development and the parties' advisors.

The Recommending Directors (Bryan Davis, Annabelle Chaplain and me) unanimously recommend that you APPROVE the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal.

The cash consideration of \$125.00 per Coal & Allied Share represents a substantial premium to Coal & Allied's average historical trading prices (adjusted for Coal & Allied's interim dividend of \$1.20 per share paid on 26 August 2011)¹, including:

- 39% to the closing price of Coal & Allied Shares on 5 August 2011, being the last trading day prior to the announcement of the indicative proposal from Rio Tinto; and
- 25% premium to the one-month volume weighted average price of Coal & Allied Shares as at 5 August 2011.

The Independent Expert appointed by Coal & Allied, Lonergan Edwards & Associates Limited, has concluded that "the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal". The reasons why Lonergan Edwards reached this conclusion are set out in the Independent Expert's Report, a summary of which can be found at Attachment A. The full Independent Expert's Report and Technical Specialist's Report are available on the Coal & Allied Website and the ASX Website. Coal & Allied Shareholders can also obtain a copy of these documents at no cost by contacting the Coal & Allied transaction information line, details of which are set out below.

The Scheme requires the approval of Coal & Allied Shareholders² at the Scheme Meeting (which is scheduled to be held on 28 November 2011 immediately following the conclusion of the General Meeting) and also by the Court. The Scheme is also subject to a number of conditions which are outlined in Section 1.4 of this Scheme Booklet including approval of the Joint Bidding Arrangements between Rio Tinto and Mitsubishi Development, by Coal & Allied Shareholders³. This approval will be sought at a General Meeting of Coal & Allied that is scheduled to be held at 10.00am on 28 November 2011. If you are unable to attend the Meetings in person, I encourage you to vote by completing your personalised proxy forms which are enclosed with this Scheme Booklet and returning them to the Coal & Allied Registry in accordance with the directions on those forms so that they are received by 10.00am on 26 November 2011.

Further information on the Scheme and the Resolutions is contained in this Scheme Booklet, including reasons for the recommendations of the Recommending Directors. I encourage you to read this Scheme Booklet in its entirety before making your decision and voting on the Resolutions. If you have any questions about any part of the Scheme, please call the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) between 9.00am and 5.00pm Monday to Friday.

I would like to take this opportunity to thank you for your continued support of Coal & Allied. Rio Tinto and Mitsubishi Development have been long-term shareholders in Coal & Allied and, subject to the necessary approvals being received, we are confident that the business will be in good hands going forward.

Yours sincerely,



Christopher Renwick
Chairman
Coal & Allied

1. The ASX cum-dividend share prices and volume weighted average prices have been adjusted downwards for Coal & Allied's interim dividend of \$1.20 per Coal & Allied Share paid on 26 August 2011 by deducting the \$1.20 per Share from each of the reference share prices.

2. Hunter Valley Resources, Rio Tinto, Mitsubishi Development and entities associated with them will be ineligible to vote at the Scheme Meeting.

3. Hunter Valley Resources, Rio Tinto, Mitsubishi Development and entities associated with them may not cast any votes in favour of the Section 611 Item 7 Resolution at the General Meeting.

Key Dates

Time & Date	Event
10.00am, Saturday, 26 November 2011	Deadline for receipt of proxy forms for the Meetings
7.00pm, Saturday, 26 November 2011	Time and date for determining eligibility to vote at the Meetings
10.00am, Monday, 28 November 2011	Time and date of the General Meeting at the Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW 2000
Monday, 28 November 2011, immediately following the conclusion of the General Meeting	Time and date of the Scheme Meeting at the Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW 2000
If the Resolutions are approved by the requisite majorities of Coal & Allied Shareholders at the Meetings:	
Monday, 28 November 2011	Special Dividend announced*
Wednesday, 30 November 2011	Second Court Date – date on which Court approval of the Scheme will be sought
Thursday, 1 December 2011	Effective Date – date on which the Scheme will become Effective Last day of trading in Coal & Allied Shares on the ASX
Friday, 2 December 2011	Ex-dividend date of Special Dividend*
7.00pm, Thursday, 8 December 2011	Special Dividend Record Date* – time and date for determining entitlement to receive the Special Dividend
7.00pm, Monday, 12 December 2011	Scheme Record Date – time and date for determining Coal & Allied Shareholders eligible to participate in the Scheme and to receive the Scheme Consideration
Thursday, 15 December 2011	Implementation Date – date on which the Scheme Shares will be transferred to Hunter Valley Resources
Friday, 16 December 2011	Expected date for payment of the Scheme Consideration** and Special Dividend*

The above dates are indicative only and are subject to change. Any changes to the above timetable will be announced through ASX and placed on the Coal & Allied Website.

* Subject to approval of the Scheme, receipt of the Tax Ruling (or a draft of that ruling) and the determination of the Coal & Allied Board.

** The Scheme requires the Scheme Consideration to be paid to Scheme Participants within five Business Days of the Implementation Date.

Reasons to approve the Scheme by voting in favour of the Resolutions

- The Recommending Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal
- The Independent Expert has concluded that “the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development), in the absence of a superior proposal”
- You are being offered a significant premium to the market price of Coal & Allied Shares prior to the announcement of the proposal by Rio Tinto and Mitsubishi Development, in circumstances where Rio Tinto and Mitsubishi Development hold, in aggregate, in excess of 85% of all Coal & Allied Shares
- The Scheme represents a liquidity opportunity for Coal & Allied Shareholders
- The Scheme provides you with the value and certainty of cash
- No alternative proposal has emerged or is likely to emerge given that Rio Tinto already has a controlling interest in Coal & Allied
- Coal & Allied’s Share price is likely to fall if the Scheme is not implemented
- No brokerage or stamp duty will be payable by you on the transfer of your Coal & Allied Shares under the Scheme

Possible reasons not to approve the Scheme

- You may disagree with the Recommending Directors and the Independent Expert and believe that the Scheme is not in your best interests
- If the Scheme proceeds, you will no longer be a Coal & Allied Shareholder and you will not participate in any potential upside that may result from being a Coal & Allied Shareholder
- You may wish to maintain your investment in Coal & Allied even though the Coal & Allied Share price may fall if the Scheme is not approved
- The tax consequences of the Scheme may be adverse for your own financial position

Frequently asked questions

AN OVERVIEW OF THE SCHEME AND THE JOINT BIDDING ARRANGEMENTS

What is the Scheme?	The Scheme is a members' scheme of arrangement under Part 5.1 of the Corporations Act proposed between Coal & Allied and Coal & Allied Shareholders (other than Excluded Shareholders) as at the Scheme Record Date. If the Scheme becomes Effective: - Hunter Valley Resources will acquire all of the Coal & Allied Shares except those held by the Excluded Shareholders as at the Scheme Record Date; and - Coal & Allied Shareholders who participate in the Scheme will be paid the Scheme Consideration for each Coal & Allied Share held as at the Scheme Record Date.
What are the Joint Bidding Arrangements?	On 26 August 2011, ACH (being the wholly-owned Subsidiary of Rio Tinto which holds Coal & Allied Shares), Mitsubishi Development and Hunter Valley Resources entered into the following agreements: - a Framework Agreement which sets out the arrangements as between ACH, Mitsubishi Development and Hunter Valley Resources on the manner in which the Scheme is to be implemented; and - a Shareholders Agreement which will govern the relationship of ACH, Mitsubishi Development and Hunter Valley Resources as shareholders in a privatised Coal & Allied. Those aspects of the Framework Agreement and Shareholders Agreement which would result in ACH, Mitsubishi Development and Hunter Valley Resources acquiring a Relevant Interest in each other's Coal & Allied Shares are collectively referred to in this Scheme Booklet as the Joint Bidding Arrangements. A detailed description of the Framework Agreement, the Shareholders Agreement and the Joint Bidding Arrangements is set out in Section 4.5.
What approvals of Coal & Allied Shareholders are required?	The Scheme can only proceed if the: - Scheme Resolution is passed by the required voting majority of Coal & Allied Shareholders (other than Excluded Shareholders) at the Scheme Meeting; and - Section 611 Item 7 Resolution to approve the Joint Bidding Arrangements is passed by the required voting majority of Coal & Allied Shareholders at the General Meeting. Section 1.8 provides details of the required voting majority for each Resolution to be passed.
Who are the Recommending Directors and what do they recommend?	The Recommending Directors are Bryan Davis, Christopher Renwick and Annabelle Chaplain. The Recommending Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions, in the absence of Superior Proposal. The Recommending Directors have carefully considered the potential advantages and disadvantages of the Scheme, as set out in Section 2, and believe that the Scheme is in the best interests of Coal & Allied Shareholders. The other Coal & Allied Directors are employees of Rio Tinto, Mitsubishi Development or entities associated with them and on this basis make no recommendation. Section 2 provides further details of the Recommending Directors' recommendation.
What is the Independent Expert's conclusion?	Lonergan Edwards is the Independent Expert and it was commissioned to assess the merits of the Scheme and the Joint Bidding Arrangements. Lonergan Edwards has concluded that: - the Scheme is fair and reasonable and in the best interests of Coal & Allied Shareholders (other than Rio Tinto and Mitsubishi Development), in the absence of a Superior Proposal; and - the Joint Bidding Arrangements are fair and reasonable to Coal & Allied Shareholders. The reasons why Lonergan Edwards reached these conclusions are set out in the Independent Expert's Report, a concise version of which can be found at Attachment A.

What are the prospects of receiving a Superior Proposal?	Since the Scheme was announced on 26 August 2011, no Superior Proposal has emerged. Given the time that has elapsed since that announcement and the fact that ACH and Mitsubishi Development hold, in aggregate, 85.91% of Coal & Allied Shares, it is the view of the Recommending Directors and the Independent Expert that a Superior Proposal is unlikely to emerge.
Who are the Excluded Shareholders?	Each of ACH, Mitsubishi Development, Hunter Valley Resources and any Related Body Corporate of any of those companies which holds Coal & Allied Shares is an Excluded Shareholder in that each of them is excluded from voting any Coal & Allied Shares at the Scheme Meeting and from participating in the Scheme (meaning their Coal & Allied Shares will not be acquired by Hunter Valley Resources under the Scheme).
What should I do?	You should read this document carefully and in its entirety and then vote by attending the Meetings in person or, if you cannot attend the Meetings in person, you should appoint a proxy, attorney or corporate representative (in the case of a corporate Coal & Allied Shareholder) to attend and vote on your behalf. Full details on who is eligible to vote and how to vote are contained in Section 1.8.

THE SCHEME CONSIDERATION AND THE SPECIAL DIVIDEND

Will I be entitled to participate in the Scheme?	Yes, provided: - all approvals and conditions for the Scheme are satisfied or waived (as applicable); and - you are registered as a Coal & Allied Shareholder (and are not an Excluded Shareholder) as at the Scheme Record Date (currently scheduled to be 7.00pm on 12 December 2011).
What will I get in exchange for my Coal & Allied Shares under the Scheme?	If the Scheme is approved and implemented, you will receive from Hunter Valley Resources \$125.00 cash for each Coal & Allied Share you hold as at the Scheme Record Date, less the amount of any Special Dividend that Coal & Allied announces it will pay. For example, if Coal & Allied pays a Special Dividend of \$8.00 per Coal & Allied Share, you will receive from Hunter Valley Resources \$117.00 cash for each Coal & Allied Share you hold as at the Scheme Record Date and you will be paid the Special Dividend of \$8.00 for every Coal & Allied Share you hold as at the Special Dividend Record Date. Section 6.2 provides further details on the Special Dividend.
Is Hunter Valley Resources bound to provide the Scheme Consideration?	Yes – under the Scheme and the Deed Poll, Hunter Valley Resources must provide the Scheme Consideration to Coal & Allied before 11.00am on the Implementation Date (subject to the Scheme becoming Effective). Coal & Allied will then provide the Scheme Consideration to Scheme Participants in accordance with the Scheme. Under the Scheme, Scheme Participants appoint Coal & Allied as their agent and attorney to enforce the Deed Poll on their behalf, with such appointment to take effect upon the Scheme becoming Effective.
Will I be entitled to the Special Dividend (if it is announced and paid)?	Yes, provided that: - all approvals and conditions for the Special Dividend are satisfied or waived (as applicable); and - the Coal & Allied Board announces the payment of the Special Dividend; and - you are registered as a Coal & Allied Shareholder as at the Special Dividend Record Date (currently scheduled to be 7.00pm on 8 December 2011). Section 6.2 provides further details on the Special Dividend.

What amount is the proposed Special Dividend expected to be?	The amount of the Special Dividend, which will not exceed \$8.00 per Coal & Allied Share, will be determined by the Coal & Allied Board after the Tax Ruling (or a draft of that ruling) has been issued. The announcement and payment of the Special Dividend will then be subject to a number of conditions including that Coal & Allied Shareholders approve the Resolutions and the Scheme becoming Effective. There is no certainty that these conditions will be satisfied and that the Special Dividend will be paid. Coal & Allied will release an announcement to ASX when the ATO issues a draft of its final ruling.
How does the Special Dividend affect the Scheme Consideration?	If the Special Dividend is paid, the amount payable by Hunter Valley Resources as the Scheme Consideration will be reduced by an amount equal to the cash amount of the Special Dividend. If no Special Dividend is paid, the Scheme Consideration will be \$125.00.
When will I be paid the Scheme Consideration?	If the Scheme is approved and implemented, it is expected, based on the current indicative timetable, that the Scheme Consideration will be paid to Scheme Participants on the Business Day after the Implementation Date (which is currently scheduled to be 16 December 2011). In any event, the Scheme requires that the Scheme Consideration be paid to Scheme Participants within five Business Days after the Implementation Date.
When will I be paid the Special Dividend?	If Coal & Allied announces the Special Dividend, it is expected, based on the current indicative timetable, that the Special Dividend will be paid on the Business Day after the Implementation Date (which is currently scheduled to be 16 December 2011).
What are the tax consequences of the Scheme for me?	Section 5 provides a general description of the Australian income tax, capital gains tax, GST and stamp duty implications for Coal & Allied Shareholders who receive the Special Dividend (if it is paid) and/or dispose of their Coal & Allied Shares in accordance with the Scheme. You should consult with your own tax adviser regarding the consequences of receiving the Special Dividend (if it is paid) and disposing of Coal & Allied Shares in accordance with the Scheme in light of current tax laws and your particular investment circumstances.
Will I have to pay brokerage?	No, you will not have to pay any brokerage fees in connection with the Scheme.

APPROVALS AND CONDITIONS OF THE SCHEME

What are the Scheme Conditions?	A summary of the Scheme Conditions is set out in Section 1.4. The Scheme Conditions are set out in full in clause 3.2 of the Scheme Implementation Agreement. A copy of that agreement was lodged with the ASX on 26 August 2011 and can be viewed on the Coal & Allied Website and the ASX Website. Coal & Allied Shareholders can also obtain a copy of the Scheme Implementation Agreement at no cost by contacting the Coal & Allied transaction information line.
Can all the Scheme Conditions be waived?	No – the conditions relating to Coal & Allied Shareholder and Court approval of the Scheme and the condition relating to Coal & Allied Shareholder approval of the Section 611 Item 7 Resolution, cannot be waived. If these conditions are not satisfied, the Scheme will not proceed and the Special Dividend will not be paid. The other conditions may be waived by the party for whose benefit the condition operates or, where the condition operates for the benefit of more than one party, by each such party.
What happens if the Resolutions are approved at the Meetings?	If the Resolutions are passed at the Meetings, Coal & Allied will apply to the Court for orders approving the Scheme. At the hearing on the Second Court Date, each of Coal & Allied and Hunter Valley Resources will provide a certificate to the Court confirming whether or not the Scheme Conditions (other than the condition relating to Court approval) have been satisfied or (if applicable) waived in accordance with the Scheme Implementation Agreement.

What happens if the Scheme is approved by the Court?	If the Scheme is approved by the Court, Coal & Allied will lodge the Court orders with ASIC on the Business Day following the Court approval at which time the Scheme will become Effective.
When will the Scheme become Effective?	It is presently expected that the Effective Date will be 1 December 2011. If the Effective Date has not occurred before 26 February 2012, Coal & Allied and Hunter Valley Resources will each have a right to terminate the Scheme Implementation Agreement if they are unable to agree to extend that date. In this event, the Scheme will not proceed and the Special Dividend will not be paid.
What happens after the Scheme becomes Effective?	Coal & Allied Shares will be suspended from further trading on the ASX from the close of trading on the Effective Date.
What happens on the Implementation Date?	On the Implementation Date, subject to Hunter Valley Resources paying (or procuring payment of) the aggregate amount of the Scheme Consideration in the manner contemplated by the Scheme, Hunter Valley Resources will become the holder of all the Coal & Allied Shares held by Coal & Allied Shareholders (other than Excluded Shareholders) as at the Scheme Record Date. It is presently expected that the Special Dividend and the Scheme Consideration will be paid to Coal & Allied Shareholders who are entitled to receive those payments on the Business Day after the Implementation Date. It is presently expected that the Implementation Date will be 15 December 2011.
Where can I find more information on the Scheme?	This Scheme Booklet provides important information concerning the Scheme. However, if you require further information in relation to the Scheme or the Resolutions you should contact the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday. Alternatively please contact your legal, financial, investment or other professional advisor.

SCHEME MEETING, VOTING AND APPROVALS

What is the Scheme Resolution?	The Scheme Resolution is a resolution to approve the Scheme. It will be voted on at the Scheme Meeting and is set out in the Notice of Scheme Meeting (Attachment E).
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held immediately following the conclusion of the General Meeting on 28 November 2011 at the Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW 2000. This is the same location as the General Meeting.
What vote is required to approve the Scheme?	Approval of the Scheme requires at least 50% of the Coal & Allied Shareholders who vote on the Scheme Resolution to vote in favour of that resolution and then their votes must be at least 75% of the total number of votes cast on the Scheme Resolution. The Excluded Shareholders will not vote on the Scheme Resolution at the Scheme Meeting.
How do I vote?	You can vote on the Scheme by doing one of the following: • by attending and voting at the Scheme Meeting in person; • by appointing a proxy to vote on your behalf; • by appointing an attorney to vote on your behalf; or • in the case of a corporation which is a Coal & Allied Shareholder, by appointing an authorised corporate representative to attend and vote on its behalf. If you choose to vote by proxy or power of attorney, your completed proxy form or power of attorney needs to be received by Computershare Investor Services Pty Limited, or registered online at www.investorvote.com.au or www.intermediaryonline.com (for custodian subscribers only), by no later than 10.00am on 26 November 2011. Please refer to Section 1.8 for further details on how to vote.

GENERAL MEETING, VOTING AND APPROVALS

Why is the General Meeting being held?	One of the conditions of the Scheme is that the Joint Bidding Arrangements be approved by Coal & Allied Shareholders under section 611 item 7 of the Corporations Act. The General Meeting is being convened to seek Coal & Allied Shareholder approval of the Section 611 Item 7 Resolution.
Does the Section 611 Item 7 Resolution need to be approved in order for the Scheme to be implemented?	Yes – clause 3.2(d) of the Scheme Implementation Agreement includes the condition of the Scheme that the Section 611 Item 7 Resolution is passed by Coal & Allied Shareholders. If Coal & Allied Shareholders do not approve the Section 611 Item 7 Resolution, the Scheme will not proceed and a Special Dividend will not be paid.
When and where will the General Meeting be held?	A meeting of Coal & Allied Shareholders will be held on 28 November 2011 at the Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW 2000 at 10.00am for the purpose of allowing Coal & Allied Shareholders to consider the Section 611 Item 7 Resolution.
What vote is required to approve the Section 611 Item 7 Resolution?	The Section 611 Item 7 Resolution must be passed as an ordinary resolution, i.e. a majority (more than 50%) of votes cast in favour of the resolution, without any votes being cast in favour of that resolution by the Excluded Shareholders or their Associates.
How do I vote?	You can vote on the Section 611 Item 7 Resolution by doing one of the following: • by attending and voting at the General Meeting in person; • by appointing a proxy to vote on your behalf; • by appointing an attorney to vote on your behalf; or • in the case of a corporation which is a Coal & Allied Shareholder, by appointing an authorised corporate representative to attend and vote on its behalf. If you choose to vote by proxy or power of attorney, your completed proxy form or power of attorney needs to be received by Computershare Investor Services Pty Limited, or registered online at www.investorvote.com.au or, for Intermediary Online subscribers only (custodians), at www.intermediaryonline.com, by no later than 10.00am on 26 November 2011. Please refer to Section 1.8 for further details on how to vote.
What happens if the Section 611 Item 7 Resolution is approved but the Scheme Resolution is not approved?	If the Section 611 Item 7 Resolution is passed but the Scheme Resolution is not passed, the Scheme will not proceed but the Joint Bidding Arrangements will remain in place for a period not longer than 12 months after the General Meeting. Please refer to Sections 4.5(a) and 4.5(b) for further detail on the Joint Bidding Arrangements.

SECTION 1

The proposal – overview and voting requirements

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1. The proposal – overview and voting requirements

1.1 Background

As announced to the ASX on 26 August 2011, Rio Tinto (acting through its wholly owned Subsidiary, ACH) and Mitsubishi Development have incorporated Hunter Valley Resources for the purpose of acquiring the Coal & Allied Shares which they do not already own pursuant to the Scheme, in consideration for the payment of the Scheme Consideration to be provided by Hunter Valley Resources and which amounts to \$125.00 for every Coal & Allied Share less the cash amount of a Special Dividend if any.

ACH holds 65,555,831 Coal & Allied Shares being (75.71% of all Coal & Allied Shares) and Mitsubishi Development holds 8,829,288 Coal & Allied Shares (being 10.20% of all Coal & Allied Shares). The Coal & Allied Shares held by ACH and Mitsubishi Development will not be acquired by Hunter Valley Resources under the Scheme and Hunter Valley Resources, ACH, Mitsubishi Development and any Related Body Corporate of any of those companies which holds Coal & Allied Shares are referred to as the Excluded Shareholders in this Scheme Booklet because they will not be entitled to attend or vote at the Scheme Meeting or participate in the Scheme.

The Scheme Consideration will be reduced by the amount of any Special Dividend that is paid by Coal & Allied. Subject to the satisfaction of a number of conditions (including the Scheme being approved and becoming Effective), Coal & Allied intends to pay a Special Dividend of up to \$8.00 per Coal & Allied Share. For further detail on the Special Dividend, please see Section 6.2.

1.2 Shareholder approval requirement

ACH, Mitsubishi Development and Hunter Valley Resources have entered into a Framework Agreement (which sets out the arrangements between them in relation to the Scheme) and a Shareholders Agreement (which will govern the relationship between them as Coal & Allied Shareholders once the Scheme is implemented). Those aspects of the Framework Agreement and Shareholders Agreement which would result in ACH, Mitsubishi Development and Hunter Valley Resources acquiring a Relevant Interest in each other's Coal & Allied Shares are collectively referred to as the Joint Bidding Arrangements.

Section 4.5 provides further details concerning these agreements.

It is a condition of the Scheme that the Joint Bidding Arrangements are approved by Coal & Allied Shareholders (other than Hunter Valley Resources, ACH, Mitsubishi Development and their Associates) for the purposes of section 611 item 7 of the Corporations Act. This approval will be sought from Coal & Allied Shareholders at the General Meeting of Coal & Allied that has been convened to be held on 28 November 2011 at 10.00am. Important details concerning the Section 611 Item 7 Resolution are set out in Section 1.7. The voting majority that is required to approve the Section 611 Item 7 Resolution is set out in Section 1.8.

The Scheme needs to be approved by Coal & Allied Shareholders (other than Excluded Shareholders) at the Scheme Meeting. The Scheme Meeting has been convened by order of the Court. The Scheme Meeting will also be held on 28 November 2011 immediately following the conclusion of the General Meeting. This Scheme Booklet contains important information for Coal & Allied Shareholders to consider in relation to the Scheme. The voting majority that is required to approve the Scheme Resolution is set out in Section 1.8.

1.3 Scheme Implementation Agreement

On 26 August 2011, Coal & Allied and Hunter Valley Resources entered into the Scheme Implementation Agreement.

A copy of the Scheme Implementation Agreement was lodged with the ASX on 26 August 2011 by Coal & Allied. A copy of the Scheme Implementation Agreement is available on the Coal & Allied Website and the ASX Website. Coal & Allied Shareholders can also obtain a copy of the Scheme Implementation Agreement at no cost by contacting the Coal & Allied transaction information line.

The Scheme Implementation Agreement sets out obligations of both Coal & Allied and Hunter Valley Resources in relation to the Scheme. It also includes the conditions to which the Scheme is subject (that is, the Scheme Conditions).

ACH and Mitsubishi Development have guaranteed to Coal & Allied the performance of Hunter Valley Resources' obligations under the Scheme Implementation Agreement.

1.4 Scheme Conditions

The Scheme Conditions that remain outstanding as at the date of this Scheme Booklet are summarised as follows:

- each of Rio Tinto, Mitsubishi Development and Hunter Valley Resources receives all necessary regulatory approvals (other than FIRB approval, which was received before the date of this Scheme Booklet). Coal & Allied has been advised by Hunter Valley Resources that, as at the date of this Scheme Booklet, each of Rio Tinto, Mitsubishi Development and Hunter Valley Resources is not aware of any such regulatory approvals that will be required;
- the Resolutions (being the Section 611 Item 7 Resolution and the Scheme Resolution) are passed by the requisite majorities of Coal & Allied Shareholders at respectively the General Meeting and the Scheme Meeting;
- the Court approves the Scheme;
- there is no regulatory action that prevents the Scheme from being implemented, requires divestiture of any assets of the Coal & Allied Group, the Rio Tinto Group or the Mitsubishi Development Group, or imposes an obligation on Hunter Valley Resources, ACH or Mitsubishi Development to accept any takeover offer for Coal & Allied Shares under, vote in favour of or otherwise approve, any Competing Proposal;

- subject to a number of specified exclusions (including changes in the AUD:USD exchange rate and changes in coal prices), no event occurs or is announced that has had or could reasonably be expected to:
 - have an adverse effect on the financial or trading position or profitability of the Coal & Allied Group (taken as a whole) in an amount that would or could reasonably be expected to result in a diminution of the Coal & Allied Group's:
 - net assets by more than \$150 million; or
 - net profit after tax in any financial year by more than \$70 million; or
 - have a material adverse effect on the prospects of the Coal & Allied Group, taken as a whole or the status or terms of any material approvals, licences, tenements or permits issued to any member of the Coal & Allied Group by a Public Authority; and
- no Prescribed Event occurs (in Coal & Allied or in a company that is a Subsidiary of Coal & Allied).

Each of the Scheme Conditions, other than the Court approval condition, must be satisfied or (if applicable) waived before 8.00am on the Second Court Date. The Scheme Conditions relating to Coal & Allied Shareholder and Court approval of the Scheme and the Scheme Condition relating to Coal & Allied Shareholder approval of the Section 611 Item 7 Resolution, cannot be waived. If these Scheme Conditions are not satisfied, the Scheme will not proceed and the Special Dividend will not be paid. The other Scheme Conditions may be waived by the party for whose benefit the condition operates or, where the condition operates for the benefit of more than one party, by each such party.

As at the date of this Scheme Booklet, the Coal & Allied Directors are not aware of any reason why any Scheme Condition referred to above is not likely to be satisfied in the time required by the Scheme Implementation Agreement.

1.5 Determination of persons entitled to Scheme Consideration and the Special Dividend

a. Dealing on or prior to the record dates

For the purpose of establishing the persons who are Scheme Participants and persons entitled to receive the Special Dividend (if a Special Dividend is paid) dealings in Coal & Allied Shares will only be recognised if:

- in the case of dealings effected by CHESS, the transferee is registered in the Coal & Allied Register as a holder of the relevant Coal & Allied Shares:
 - for the Special Dividend (if a Special Dividend is paid): as at the Special Dividend Record Date; and
 - for the Scheme Consideration: as at the Scheme Record Date; and
- in all other cases, registrable transfers or transmission applications are received at the place where the Coal & Allied Register is kept on or before:
 - for the Special Dividend (if a Special Dividend is paid): the Special Dividend Record Date; and
 - for the Scheme Consideration: the Scheme Record Date.

Coal & Allied will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Coal & Allied Shares received after the Scheme Record Date (other than a transfer of Coal & Allied Shares to Hunter Valley Resources in accordance with the Scheme) or received prior to the Scheme Record Date and not in registrable form.

b. Dealings after the Scheme Record Date

For the purposes of determining entitlements to Scheme Consideration, Coal & Allied will from the Scheme Record Date until the Scheme Consideration has been paid to Scheme Participants in accordance with the Scheme, maintain the Coal & Allied Register in the form it is in as at the Scheme Record Date, which will solely determine entitlements to the Scheme Consideration.

As from 7.00pm on the Scheme Record Date, each entry current on the Coal & Allied Register will cease to be of any effect other than as evidence of entitlement to the Scheme Consideration in respect of the Coal & Allied Shares relating to that entry.

Any statements of holding in respect of Coal & Allied Shares shall, from the Scheme Record Date, cease to have any effect as documents of evidence of title in respect of such Coal & Allied Shares.

1.6 Sunset Date

If the Scheme has not become Effective on or before 26 February 2012 or a later date agreed by Coal & Allied and Hunter Valley Resources, either Coal & Allied or Hunter Valley Resources is able to terminate the Scheme Implementation Agreement. If the Scheme Implementation Agreement is terminated, the Scheme will not proceed.

1.7 Section 611 Item 7 Resolution

The Section 611 Item 7 Resolution will be proposed at the General Meeting.

It is a condition of the Scheme that the Section 611 Item 7 Resolution is passed. It will be passed if more than 50% of the votes that are cast on the resolution are in favour of it. Hunter Valley Resources, ACH, Mitsubishi Development and their respective Associates cannot cast a vote in favour of the resolution.

If Coal & Allied Shareholders do not approve the Section 611 Item 7 Resolution the Scheme will not proceed and a Special Dividend will not be paid.

The Section 611 Item 7 Resolution relates to the Joint Bidding Arrangements between ACH, Mitsubishi Development and Hunter Valley Resources. Those arrangements are set out in the Framework Agreement and the Shareholders Agreement. Section 4.5 provides a summary, prepared by Hunter Valley Resources, of these agreements.

Under the Framework Agreement, ACH and Mitsubishi Development will each acquire a Relevant Interest in the other's Coal & Allied Shares and Hunter Valley Resources will also acquire a Relevant Interest in those shares, if the Section 611 Item 7 Resolution is passed. This is because those parties have agreed, under that agreement, that ACH and Mitsubishi Development will not dispose of the Coal & Allied Shares held by them, except to a Related Body Corporate or with the approval of the other parties.

ACH holds 65,555,831 Coal & Allied Shares, representing 75.71% of all Coal & Allied Shares.

Mitsubishi Development holds 8,829,288 Coal & Allied Shares representing 10.20% of all Coal & Allied Shares.

Hunter Valley Resources currently does not hold any Coal & Allied Shares.

Section 611 item 7 and section 609(7) of the Corporations Act allow the acquisition of a Relevant Interest in Coal & Allied Shares in the manner referred to above to take place without being in breach of the Corporations Act provided:

- Coal & Allied Shareholders approve that acquisition; and
- such approval is given, in this case, by no later than 26 December 2011, being not later than four months after the date of the Framework Agreement.⁴

It should be noted that, if the Section 611 Item 7 Resolution is passed but the Scheme does not become Effective (either because the Scheme Resolution is not passed, a condition of the Scheme is not satisfied or, where applicable, waived or the Court does not approve the Scheme), then the restrictions contained in the Framework Agreement, which are summarised in the section 4.5(a)(i), will continue for up to 12 months after the date that the Section 611 Item 7 Resolution is passed.

If the Section 611 Item 7 Resolution is passed then:

- ACH and its Related Bodies Corporate will have a Relevant Interest in, and voting power over, 85.91% of all Coal & Allied Shares, which includes the Coal & Allied Shares held by Mitsubishi Development.
- Mitsubishi Development and its Related Bodies Corporate will have a Relevant Interest in, and voting power over, 85.91% of all Coal & Allied Shares, which includes the Coal & Allied Shares held by ACH.
- Hunter Valley Resources will have a Relevant Interest in, and voting power over, 85.91% of all Coal & Allied Shares being the aggregate of such shares held by ACH and Mitsubishi Development.

Because the Scheme is conditional on the Section 611 Item 7 Resolution being passed and given that the Recommending Directors (Christopher Renwick, Bryan Davis and Annabelle Chaplain) unanimously recommend the Scheme, in the absence of a Superior Proposal (see Section 2 for further details of their recommendation), they also unanimously recommend that Coal & Allied Shareholders vote in favour of and approve the Section 611 Item 7 Resolution.

In the Independent Expert's Report, the Independent Expert has concluded that the Section 611 Item 7 Resolution is fair and reasonable to Coal & Allied Shareholders.

Please see Section 1.8 below on how to vote on the Section 611 Item 7 Resolution at the General Meeting and, in particular, how you may vote by proxy if you are unable to attend the General Meeting in person.

1.8 Meeting details and instructions on how to vote

Meeting details

The Meetings will be held at the Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW 2000 on 28 November 2011 at the following times:

Meeting	Time
General Meeting	10.00am
Scheme Meeting	Immediately following the conclusion of the General Meeting

4. ASIC has modified section 609(7) of the Corporations Act to allow this approval to be obtained within 4 months, rather than 3 months, from the date of the Framework Agreement.

Voting Majorities required

Resolution	Approval threshold
Section 611 Item 7 Resolution	More than 50% of the votes cast at the General Meeting by Coal & Allied Shareholders entitled to vote on the Section 611 Item 7 Resolution without any votes being cast in favour of that resolution by the Excluded Shareholders or their Associates.
Scheme Resolution	A majority in number (i.e. more than 50%) of Coal & Allied Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (whether in person or by proxy, attorney or, in the case of bodies corporate, corporate representative), who together hold at least 75% of the votes cast on the Scheme Resolution.

Voting entitlements

a. Scheme Meeting

Coal & Allied Shareholders (other than Excluded Shareholders) registered on the Coal & Allied Register at 7.00pm on 26 November 2011 will be entitled to attend and vote at the Scheme Meeting.

Voting will be conducted by poll.

b. General Meeting

Coal & Allied Shareholders registered on the Coal & Allied Register at 7.00pm on 26 November 2011 will be entitled to attend and vote at the General Meeting.

Voting will be conducted by poll.

Voting in person

To vote in person at a Meeting, Coal & Allied Shareholders must attend the Meeting. A Coal & Allied Shareholder entitled to attend and vote at a Meeting will be admitted to the Meeting upon providing evidence of his or her name and address at the point of entry to the Meeting.

Voting by proxy or attorney

The Scheme Proxy and General Proxy Forms are enclosed with this Scheme Booklet.

Coal & Allied Shareholders wishing to appoint a proxy to attend and vote at a Meeting must complete and return the relevant Proxy Form in accordance with the instructions on it.

There are a number of ways Proxy Forms may be submitted:

Method	Instructions
Mail	Sent to the Coal & Allied Registry (using the reply paid envelope enclosed with this Scheme Booklet), addressed to Computershare Investor Services Pty Limited at GPO Box 242, Melbourne Victoria 3001 Australia
Hand delivery	Delivered during business hours to the Coal & Allied Registry at Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000
Fax	Sent to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)
Online	Lodged at www.investorvote.com.au or, for Intermediary Online subscribers only (custodians), at www.intermediaryonline.com

Proxy Forms must be received by the Coal & Allied Registry by 10.00am on 26 November 2011. If you have an attorney sign a Proxy Form on your behalf, the original or a certified copy of the power of attorney or other evidence of your attorney's authority must be received by the Coal & Allied Registry at the same time as the Proxy Form (unless previously provided to the Coal & Allied Registry).

A proxy will be admitted to a Meeting upon providing evidence of their name and address at the point of entry to the Meeting.

Coal & Allied Shareholders who have returned a Proxy Form may revoke the proxy by attending and voting at the relevant Meeting.

Voting by attorney

Coal & Allied Shareholders may have an attorney attend and vote at a Meeting on their behalf. Persons attending a Meeting as an attorney should bring to the Meeting the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the Meeting.

Voting by corporate representative

Coal & Allied Shareholders who are bodies corporate may have a corporate representative attend and vote at a Meeting on their behalf. The appointment must comply with section 250D of the Corporations Act. Persons attending a Meeting as a corporate representative should bring to the Meeting evidence of their appointment, including any authority under which the document appointing them as corporate representative was signed.

Further information

Please refer to the Notice of General Meeting (Attachment D) and Notice of Scheme Meeting (Attachment E) for further information on voting procedures and details of the Resolutions to be voted on at the Meetings (including who is entitled to vote on the Resolutions).

1.9 Coal & Allied transaction information line

If, after reading this Scheme Booklet, you require any further information, please call the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday.

SECTION 2

**Recommending Directors' recommendation
and matters relevant to your vote on the Scheme**

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2. Recommending Directors' recommendation and matters relevant to your vote on the Scheme

2.1 Recommending Directors' recommendation

a. Coal & Allied Directors

The Coal & Allied Directors as at the date of this Scheme Booklet are:

- Mr Christopher Renwick AM (Chairman);
- Mr William Champion;
- Ms Annabelle Chaplain;
- Mr Bryan Davis;
- Mr Douglas Ritchie; and
- Mr Kaoru Yamanaka.

b. Proposal Response Committee

The members of the Proposal Response Committee are Bryan Davis (chairman of the committee), Annabelle Chaplain and Christopher Renwick.

Mr Davis and Ms Chaplain are non-executive, independent directors of Coal & Allied and they are members of the Coal & Allied Independent Directors Committee.

Mr Renwick is the non-executive Chairman of Coal & Allied. Mr Renwick has been a director of Coal & Allied since 2004 and Chairman since February 2005. Until his retirement in 2004, Mr Renwick was a senior executive with Rio Tinto for over 35 years. Mr Renwick's external appointments include the position of Chairman of the Rio Tinto Aboriginal Fund, which is a charitable organisation and a separate entity to Rio Tinto. Mr Renwick receives an annual chairman's fee of \$55,000 from Rio Tinto in connection with that appointment.

None of the members of the Proposal Response Committee has been involved in considering, negotiating or implementing the proposal on behalf of Rio Tinto, ACH, Mitsubishi Development or Hunter Valley Resources.

c. Position of other Coal & Allied Directors

Mr Champion is the Managing Director of Coal & Allied. He is employed and remunerated by Rio Tinto Services Inc, an indirectly, but wholly owned Subsidiary of Rio Tinto plc. Mr Champion holds Rio Tinto plc shares and in accordance with his employment contract, he has been, and is eligible to be, awarded options over ordinary shares in Rio Tinto plc as part of his remuneration.

Mr Ritchie is a non-executive director of Coal & Allied. Mr Ritchie is the Chief Executive of Rio Tinto Energy and he is employed and remunerated by Rio Tinto. Mr Ritchie has been involved in considering, negotiating and implementing the proposal on behalf of Rio Tinto, ACH and Hunter Valley Resources.

Mr Yamanaka is the Managing Director of Mitsubishi Development and he is employed and remunerated by Mitsubishi Development. Mr Yamanaka has been involved in considering, negotiating and implementing the proposal on behalf of Mitsubishi Development and Hunter Valley Resources.

d. Recommending Directors

Having disclosed the matters above, each of Ms Chaplain, Mr Renwick and Mr Davis (referred to as the Recommending Directors) considers it appropriate to make a recommendation in relation to the Scheme and each of them recommends that Coal & Allied Shareholders approve the Scheme by voting in favour of each Resolution, in the absence of a Superior Proposal, for the reasons set out below.

Having regard to the matters set out above, each of Mr Ritchie, Mr Yamanaka and Mr Champion does not desire to make and does not consider it appropriate for them to make a recommendation to Coal & Allied Shareholders in relation to the Scheme and accordingly each of them makes no such recommendation.

2.2 Reasons to approve the Scheme

a. The Recommending Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal

The Recommending Directors believe that the Scheme is in the best interests of Coal & Allied Shareholders and unanimously recommend that you approve the Scheme by voting all your Coal & Allied Shares in favour of both Resolutions – the Scheme Resolution that will be considered at the Scheme Meeting and the Section 611 Item 7 Resolution that will be considered at the General Meeting, in the absence of a Superior Proposal.

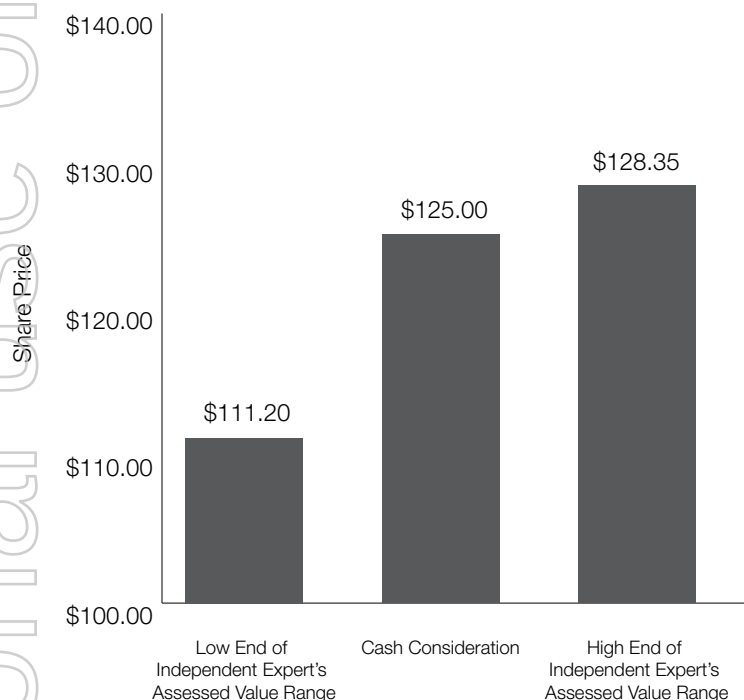
In reaching their recommendation, the Recommending Directors have had regard to the reasons to approve, or not to approve, the Scheme (as set out in this Scheme Booklet).

In particular, the Recommending Directors believe that the Scheme Consideration is attractive and provides an opportunity for you to realise a cash value for your Coal & Allied Shares at a significant premium to the market price of Coal & Allied Shares prior to the announcement of the proposed transaction.

b. The Independent Expert has concluded that “the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal”

Loneragan Edwards & Associates Limited, the Independent Expert, has valued 100% of the Coal & Allied Shares on a controlling interest basis at between \$111.20 and \$128.35 per Coal & Allied Share as compared to the cash consideration offered by Hunter Valley Resources of \$125.00 per Coal & Allied Share.

Independent Expert Valuation Range



The Independent Expert concludes as follows:

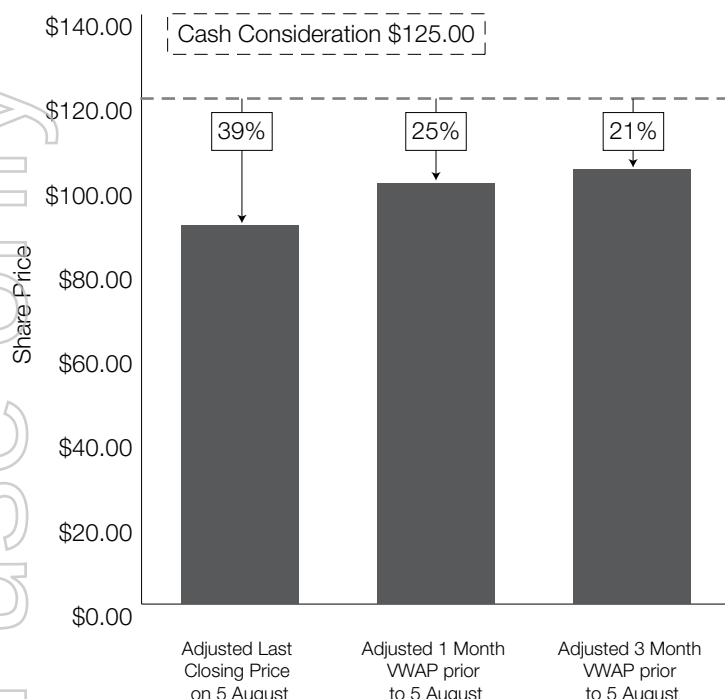
“the Scheme Consideration of A\$125.00 cash per share is towards the high end of our assessed value range for Coal & Allied shares on a 100% controlling interest basis”

The reasons why the Independent Expert reached these conclusions are set out in the Independent Expert's Report, a summary of which can be found at Attachment A. The Recommending Directors encourage you to read this report in its entirety before deciding whether or not to approve the Scheme. The Independent Expert's Report, which includes the Technical Specialist's Report that has been prepared by AMC, has been lodged with the ASX and is available for inspection and downloading from the Coal & Allied Website and the ASX Website. The full Independent Expert's Report and Technical Specialist's Report can also be obtained by Coal & Allied Shareholders before the date of the Scheme Meeting, free of charge, by calling the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) between 9.00am and 5.00pm Monday to Friday.

c. You are being offered a significant premium to the market price of Coal & Allied Shares prior to the announcement of the proposal by Rio Tinto and Mitsubishi Development, in circumstances where Rio Tinto and Mitsubishi Development hold, in aggregate, in excess of 85% of Coal & Allied Shares

The cash consideration of \$125.00 per Coal & Allied Share, which will be paid to Coal & Allied Shareholders if the Scheme is approved and implemented, represents a significant premium to the market price of Coal & Allied Shares during the period, referred to in the table below, which preceded the announcement of the indicative proposal from Rio Tinto and Mitsubishi Development on 6 August 2011. Scheme Participants are being offered this premium despite the fact that Rio Tinto already controls Coal & Allied given it holds 75.71% of all Coal & Allied Shares.

Attractive Premia¹



This is consistent with the Independent Expert's view:

"the Scheme Consideration represents a significant premium to the recent market prices of Coal & Allied shares prior to the announcement of the indicative proposal that was received from Rio Tinto on 6 August 2011"

Note 1: The ASX cum-dividend share prices and volume weighted average prices have been adjusted downwards for Coal & Allied's interim dividend of \$1.20 per Coal & Allied Share paid on 26 August 2011 by deducting the \$1.20 per share from each of the reference prices in the graph. The reference prices after adjusting for the interim dividend of \$1.20 per share are as follows: last closing price on 5 August 2011 of \$89.80 (the last trading day before Rio Tinto's initial approach to Coal & Allied on 6 August 2011); one month volume weighted average price up to 5 August 2011 of \$99.84; and three month volume weighted average price up to 5 August of \$103.15.

d. The Scheme represents a liquidity opportunity for Coal & Allied Shareholders

The Scheme is an opportunity for all Coal & Allied Shareholders (other than Excluded Shareholders) to realise their investment in Coal & Allied at an attractive premium.

The table below shows the trading volumes of Coal & Allied Shares over various periods up to 5 August 2011, the last trading day prior to the announcement of the indicative proposal from Rio Tinto and Mitsubishi Development.

Liquidity of Coal & Allied Shares

Period	Start Date	End Date	Value \$	Volume	As a % of issued capital
3 months	6 May 2011	5 August 2011	177,458,944	1,700,584	1.96%
6 months	7 February 2011	5 August 2011	402,062,246	3,613,809	4.17%
1 year	6 August 2010	5 August 2011	664,146,485	6,020,408	6.95%

The above table indicates that there is relatively low liquidity in the public market for Coal & Allied Shares. In part, this is because ACH holds 75.71% and Mitsubishi Development holds 10.20% of all Coal & Allied Shares. Accordingly, if the Scheme is not approved it is likely that the low level of liquidity for Coal & Allied Shares will continue.

e. The Scheme provides you with the value and certainty of cash

The cash consideration of \$125.00 cash per Coal & Allied Share which is being offered to Coal & Allied Shareholders provides certainty of value and timing.

In contrast, if the Scheme does not proceed, the amount which Coal & Allied Shareholders will be able to realise for their Coal & Allied Shares in terms of price and future dividends, will necessarily be uncertain and will be subject to a number of risks outlined in Section 3.7 of this Scheme Booklet.

f. No alternative proposal has emerged or is likely to emerge given that Rio Tinto already has a controlling interest in Coal & Allied

Since the initial announcement of the Indicative Proposal to the ASX by Coal & Allied on 8 August 2011, the proposed transaction has been widely publicised and no alternative proposal has emerged.

Given the time that has elapsed since this initial announcement, and the fact that Rio Tinto and Mitsubishi Development together own 85.91% of Coal & Allied Shares, the Recommending Directors believe that an alternate Superior Proposal is unlikely to emerge.

This is supported by the Independent Expert:

"it should be noted that as Rio Tinto and Mitsubishi already own 85.9% of Coal & Allied shares there is no realistic likelihood that a competing offer for Coal & Allied shares will be received prior to the Scheme meeting."

g. Coal & Allied's Share price is likely to fall if the Scheme is not implemented

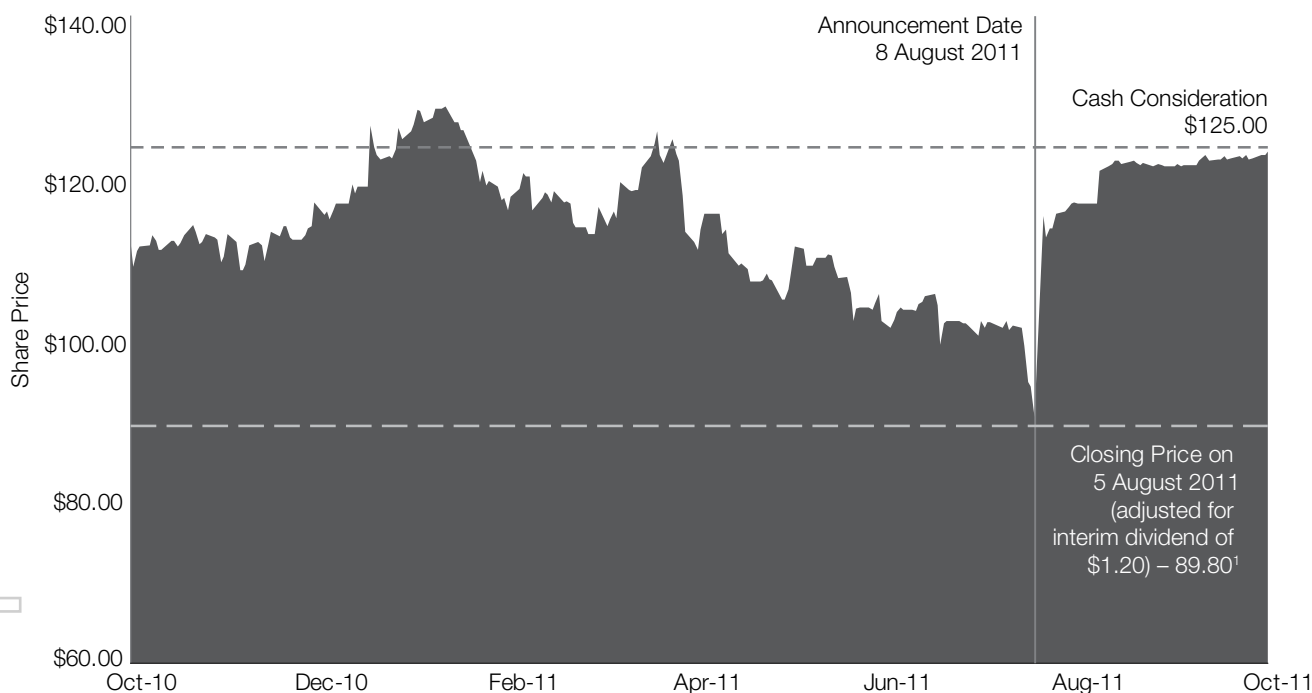
The Recommending Directors expect that if the Scheme is not approved and no Superior Proposal emerges, Coal & Allied Shares are likely to trade at levels below current trading levels (and the Scheme Consideration) and more in line with the market price for Coal & Allied Shares in the period leading up to Coal & Allied's announcement of 8 August 2011 as indicated in the chart below. It should be noted that the Recommending Directors are not in a position to provide any assurance as to the market price of Coal & Allied Shares in this event as it will be influenced by many external factors that are not within the control or influence of Coal & Allied.

The Independent Expert notes that:

"if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Coal & Allied shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the indicative proposal from Rio Tinto was announced."

"Shareholders should note that the S&P/ASX 200 Resources Index has fallen 7.8% since the last trading day prior to Coal & Allied's announcement that it had received an indicative proposal from Rio Tinto on 8 August 2011⁵."

Coal & Allied Share Price



Note 1: The ASX cum-dividend share price has been adjusted for Coal & Allied's interim dividend of \$1.20 per share paid on 26 August 2011 by deducting the \$1.20 per share from the last closing price on 5 August 2011 (\$91.00 per share).

h. No brokerage or stamp duty will be payable by you on the transfer of your Coal & Allied Shares under the Scheme

You will not incur any brokerage or stamp duty on the transfer of your Coal & Allied Shares to Hunter Valley Resources pursuant to the Scheme.

2.3 Possible reasons not to approve the Scheme

Some of the potential factors that may lead you not to approve the Scheme or to consider that the Scheme is disadvantageous for you are outlined below.

5. The decline in the S&P/ASX 200 Resources Index is calculated from 5 August 2011 up to 21 October 2011.

a. You may disagree with the Recommending Directors and the Independent Expert and believe that the Scheme is not in your best interests

You may disagree with the Recommending Directors and/or the findings of the Independent Expert and believe that the Scheme is not in your best interests.

In particular, you may believe that Coal & Allied will deliver greater returns over the long term by remaining an independent company and that the future growth prospects of Coal & Allied have not been fully reflected in the Scheme Consideration that is being offered to you for your Coal & Allied Shares.

b. If the Scheme proceeds, you will no longer be a Coal & Allied Shareholder and you will not participate in any potential upside that may result from being a Coal & Allied Shareholder

If the Scheme is approved and implemented, you will cease to hold an interest in Coal & Allied (which is the largest ASX-listed coal company by market capitalisation). As such you will no longer be able to participate in Coal & Allied's future financial performance or the future prospects of its ongoing business, further details of which are set out in Section 3.

If the Scheme is approved and implemented, Coal & Allied will be removed from the official list of the ASX and investors will no longer be able to acquire or trade in Coal & Allied Shares.

c. You may wish to maintain your investment in Coal & Allied

You may wish to maintain an interest in Coal & Allied because you are seeking an investment in a publicly listed company with the specific characteristics of Coal & Allied such as industry, operational profile, capital structure, size and geography.

Further if the Scheme is approved and implemented, you will cease to hold an interest in Coal & Allied and will no longer have the rights of a Coal & Allied Shareholder. In particular, you will forego any future dividends from Coal & Allied (although there is no certainty as to the quantum of any such dividends or timing for payment of future dividends), the opportunity to benefit from any increase in the Coal & Allied Share price, and your voting rights as a Coal & Allied Shareholder.

d. The tax consequences of the Scheme may be adverse for your financial position

If the Scheme is implemented, this may trigger taxation implications for you earlier than would have otherwise been the case, potentially including capital gains tax. You should read the taxation considerations outlined in Section 5 and seek professional taxation advice with respect to your individual tax situation.

2.4 What if the Scheme is not approved?

If the Scheme does not proceed, Hunter Valley Resources will not acquire your Coal & Allied Shares under the Scheme, you will not receive any Scheme Consideration and the Special Dividend will not be paid.

In addition to the matters outlined above, if the Scheme does not proceed:

- Coal & Allied will continue to be listed on the ASX.
- Decisions in relation to the future of Coal & Allied will continue to be taken by the Coal & Allied Board. Coal & Allied anticipates that it will retain all of its current employees and continue to operate in its current form. Information regarding the outlook for Coal & Allied if the Scheme is not approved is set out in Section 3.6.
- Coal & Allied will continue to be exposed to the risk factors outlined in section 3.7.

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SECTION 3

Overview of Coal & Allied



3. Overview of Coal & Allied

3.1 Background

Coal & Allied is the largest ASX-listed pure coal miner by market capitalisation and one of the major coal producers in the Hunter Valley region of New South Wales. It has a number of potential growth initiatives as discussed below.

Coal & Allied's strategy is to maximise the value of its world class resource base by positioning itself as the leading operator and developer of export thermal and semi-soft coking coal mines in the Hunter Valley.

Coal & Allied's vision is to be a safe and highly successful business, valued by customers, employees, shareholders and the community. Successful development, change and business improvements have been key themes of recent years. Coal & Allied is managed by Rio Tinto Coal Australia (a wholly owned Subsidiary of Rio Tinto).

ACH and Mitsubishi Development together hold 85.91% of the issued shares in Coal & Allied.

3.2 Operations

a. Hunter Valley Operations

i. Overview

Hunter Valley Operations (HVO), located 24km north-west of Singleton in the Hunter Valley of New South Wales, produces a mixture of thermal and semi-soft coking coal. In recent periods HVO has produced around 10 to 11 million tonnes of saleable coal and it is scheduled to ramp up to 14 million tonnes during 2012.

Production commenced in 1968 at what is now known as the West Pit (part of HVO North), which was then part of the Howick mine. The Hunter Valley No. 1 mine began production in 1979. In 2000 Coal & Allied merged the Howick and Hunter Valley mines to create Hunter Valley Operations. The Lemington mine, which began production in 1971, was acquired and merged into Hunter Valley Operations in 2001. HVO is 100% owned by Coal & Allied.

ii. Mining and production

HVO is a multi-pit open cut mine, using a dragline, truck and shovel method, which is operational 24 hours a day, seven days a week.

Run-of-Mine coal is processed through two on-site coal preparation plants to produce a semi-soft coking coal and low, medium and high ash thermal coal for the export market. Product coal is railed through the Hunter Valley rail network to the Port Waratah coal loading terminal at Newcastle some 90km to the east. HVO had marketable reserves of 263 million tonnes as at 31 December 2010.

b. Mount Thorley Warkworth Operations

i. Overview

Mount Thorley Warkworth (MTW) is an integrated operation of two open cut mines located adjacent to each other 15km south-west of Singleton in the Hunter Valley of New South Wales. The majority of the coal produced is exported to international markets as either semi-soft coking coal or thermal coal. A minor proportion of production is sold domestically. MTW has recently produced some 9 million tonnes of product coal per annum and it is scheduled to increase production to a 12 million tonnes per annum rate during 2012.

Both the Warkworth and Mount Thorley mines have been in operation since 1981. In January 2004, the two mines were integrated to realise operational and mine planning efficiencies by entering into an Operational Integration Agreement that allowed the operations to be managed together. Coal & Allied is currently investigating a number of options to extend mining within its existing Warkworth lease. An application to amend the existing planning approvals for the Warkworth mine is currently awaiting assessment by the NSW Government, and will, if approved, provide for consented operations for 21 years from the date of grant.

Coal & Allied manages MTW and owns 80% of Mount Thorley (POSCO owns 20%) and 55.6% of Warkworth (with the other joint venture partners being Mitsubishi Development 28.9%, Nippon Steel 9.5% and Mitsubishi Materials 6%).

ii. Mining and production

MTW is an open cut mine, using a dragline, truck and shovel method, which is operational 24 hours a day, seven days a week.

After being washed and prepared for sale, the majority of coal is loaded onto trains for transportation 90km to the Port Waratah coal terminal in Newcastle where it is shipped to international customers.

Mount Thorley had marketable reserves of 24 million tonnes as at 31 December 2010. Warkworth had marketable reserves of 261 million tonnes as at 31 December 2010.

c. Bengalla

i. Overview

Bengalla, located four kilometres south-west of Muswellbrook in the Hunter Valley region of New South Wales, supplies international markets with thermal coal. In 2010 Bengalla produced 5.5 million tonnes of product coal and it is scheduled to ramp up production to a 7.5 million tonnes rate during 2012.

Bengalla's history as a project goes back to 1990, when the NSW Government called for expressions of interest from mining companies to develop a coal resource. Development consent was granted for Bengalla in 1996 and the site commenced production in 1999.

Coal & Allied owns 40% of Bengalla (with the other joint venture partners being Wesfarmers 40%, Taipower 10% and Mitsui 10%) and is the manager of Bengalla.

ii. Mining and production

Bengalla is an open cut mine, using a dragline, truck and shovel method, operational 24 hours a day, seven days a week.

After being washed and prepared for sale, the coal is loaded onto trains for transportation 115km to the Port Waratah coal terminal in Newcastle where it is shipped to international customers.

Bengalla had marketable reserves of 137 million tonnes as at 31 December 2010.

3.3 Availability of documents relating to Coal & Allied

On 14 March 2011, Coal & Allied lodged a copy of the 2010 Annual Report with ASX.

The 2010 Annual Report contains more detailed information about the Coal & Allied Group's assets, business, structure, shareholder profile and outlook. It also includes a copy of the audited consolidated financial statements of the Coal & Allied Group for the year ended 31 December 2010.

Coal & Allied held its 2011 Annual General Meeting on 15 April 2011.

Coal & Allied Shareholders can view the 2010 Annual Report on the Coal & Allied Website or on the ASX Website.

The full statutory interim results for the six months ended 30 June 2011 were provided to ASX on 27 July 2011. This document is also available on the Coal & Allied Website and the ASX Website.

The 2010 Annual Report and Coal & Allied's full statutory interim results for the six months ended 30 June 2011 can also be obtained at no cost from the Coal & Allied transaction information line on 1300 882 217 (within Australia) or +61 2 9191 5971 (outside Australia) between 9.00am and 5.00pm Monday to Friday, prior to the Scheme Meeting.

As an ASX listed company and a "disclosing entity" under the Corporations Act, Coal & Allied is subject to regular reporting and disclosure obligations. Coal & Allied's recent announcements are available on the Coal & Allied Website and also on the ASX Website. Further announcements concerning developments at Coal & Allied will continue to be made available on these websites after the date of this Scheme Booklet.

3.4 Capital structure

As of the date of this Scheme Booklet, there are 86,584,735 Coal & Allied Shares on issue.

Coal & Allied does not have any other securities on issue.

3.5 Recent share price and dividend history

The chart in Section 2.2(g) provides details of the market price for Coal & Allied Shares traded on the ASX in the past 12 months.

The last closing price of Coal & Allied Shares on ASX before the public announcement of Rio Tinto's Indicative Proposal on 8 August 2011 was \$91.00⁶. The latest recorded price of Coal & Allied Shares on ASX on 21 October 2011 was \$124.30.

The VWAP of Coal & Allied Shares on ASX for the one, three and six month periods prior to 8 August 2011 were \$101.04, \$104.35 and \$111.26 respectively. Since the time of the prices referred to above, Coal & Allied has paid an Interim Dividend of \$1.20 per Coal & Allied Share. The Interim Dividend was paid on 26 August 2011.

The current price of Coal & Allied Shares on ASX can be obtained from the ASX Website.

6. Share price and volume weighted average prices have been presented on an unadjusted, cum-dividend basis. The reference prices after adjusting for the interim dividend of \$1.20 per Coal and Allied share are as follows: last closing price on 5 August 2011 of \$89.80 (the last trading day before Rio Tinto's initial approach to Coal & Allied on 6 August 2011); one month volume weighted average price up to 5 August 2011 of \$99.84; three month volume weighted average price up to 5 August of \$103.15; and six month volume weighted average price up to 5 August 2011 of \$110.06.

The amount of dividends paid by Coal & Allied in the seven years before the date of this Scheme Booklet are set out in the table below:

		2004	2005	2006	2007	2008	2009	2010	2011 Interim
NPAT	cps*	129	335	239	127	928	676	813	227
Ordinary Dividends									
Interim	cps	0	110	110	0	160	160	450	120
Final	cps	100	120	25	25	550	350	138	
Total	cps	100	230	135	25	710	510	588	120
Payout ratio	%	78%	69%	56%	20%	76%	75%	72%	46%

*Cents per share.

3.6 Outlook for Coal & Allied if the Scheme is not approved

Uncertainty continues to permeate global markets, with sovereign debt concerns in Europe and risk around the timing and strength of a US recovery. However, the signals from Coal & Allied's key markets in Asia remain positive. While the tragic earthquake and tsunami in Japan caused a moderate reduction in Japanese demand and some supply rescheduling, Coal & Allied does not anticipate any ongoing impact to its sales profile. In the medium to long term it is anticipated that strong energy demand in the developing economies, particularly China and India, combined with the rising costs and logistical constraints associated with domestic production in these countries, will provide support for growth in seaborne thermal and metallurgical coal markets.

Despite retreating from the highs seen earlier this year, prices for thermal and semi soft coking coal remain firm. Market conditions for the remainder of the year are expected to be well balanced.

Recent infrastructure developments in the Hunter Valley have provided a greater degree of certainty for producers in determining the ability of the coal chain to keep pace with future growth in supply and demand. This has been supported through expansion projects at Port Waratah Coal Services and the Newcastle Coal Infrastructure Group, that will see port capacity increase significantly by the end of 2012. As a result of this increased certainty, Coal & Allied is actively pursuing a growth path that will see production increasing from 25 million tonnes per annum in 2010 to over 40 million tonnes per annum by 2015. This growth is planned to be achieved through a combination of brownfield expansion projects underway at each of our existing mine sites as well as the greenfield Mount Pleasant project.

Key risks to the achievement of this growth include the risks regarding Coal & Allied's business that are outlined in Section 3.7.

3.7 Summary of key risks

There are existing risks relating to Coal & Allied's business and an investment in Coal & Allied which will continue to be relevant to Coal & Allied Shareholders if the Scheme does not become Effective. These risks include but are not limited to the risks outlined below.

a. External risks

i. Government policy, regulation and taxation

Changes in relevant taxation laws, interest rates, royalty rates, other legal, legislative, regulatory and administrative regimes, and government policies in Australia and New South Wales, may have an adverse effect on the assets, operations and ultimately the financial performance of Coal & Allied.

These factors may ultimately affect the financial performance of Coal & Allied and the market price of Coal & Allied Shares. Other than as set out in this Scheme Booklet, Coal & Allied is not aware of any current or proposed material changes in relevant regulations or policy.

ii. Wars, terrorism and political intervention

Events may occur within or outside Australia that could impact upon the world economy, the market for coal, the operations of Coal & Allied and the market price of Coal & Allied Shares. These events include war, acts of terrorism, civil disturbance, political intervention and natural events such as earthquakes, floods, fires and poor weather affecting mining, road, rail, handling at port, shipping, consumption and transport of coal.

iii. Coal prices and demand for coal are cyclical

Coal prices, and demand for coal, are cyclical and influenced strongly by world economic growth and demand for energy, particularly in Japan, Korea, Taiwan, China and India. Coal & Allied's normal policy is to sell its products at prevailing market prices and not to enter into hedging arrangements relating to changes or fluctuations in such prices. Commodity prices can fluctuate widely. Such fluctuations can have a material impact on Coal & Allied's revenues, earnings, cash flows, asset values and growth in the future.

iv. Coal & Allied is exposed to fluctuations in the AUD:USD exchange rate

Approximately 98% of Coal & Allied's coal is sold in the export market where prices are denominated in US dollars. Coal & Allied's normal policy is not to enter into hedging arrangements relating to changes or fluctuations in foreign exchange rates. As a result, if there is an appreciation in the value of the Australian dollar against the US dollar or prolonged periods of exchange rate volatility, these changes may have a material adverse impact on Coal & Allied's results.

v. Coal & Allied's mines have a relatively high proportion of fixed costs

The lack of a long term framework for port capacity management prior to 2010 led to cut backs in port allocation, and consequently production levels, over the past several years. This has driven an increase in Coal & Allied's unit cost of production, as a result of a large fixed cost base being spread over lower volumes, and this has pushed Coal & Allied's three operating mines higher up the international cost curve. If Coal & Allied does not significantly reduce its unit costs of production through lower operating costs and/or higher production levels its operations may suffer materially.

Coal & Allied seeks to control its labour costs through collective bargaining agreements with its workforce and to contain the cost of materials and other inputs by participating in Rio Tinto's global procurement functions.

In order to facilitate the expansion of production to bring down its unit costs of production, Coal & Allied has secured port allocation under the capacity framework arrangements that were implemented in 2010 through entering into long term take or pay port contracts with Port Waratah Coal Services Ltd and Newcastle Coal Infrastructure Group. It is also pursuing a long term track access contract with the Australian Rail Track Corporation Ltd. The long term rail haulage contract with Pacific National has also recently been renewed.

These long term contracts will provide Coal & Allied with greater coal chain capacity and the opportunity to increase production and thereby lower per unit operating costs. However, the fact that these long term commitments are take-or-pay in nature could result in higher unit costs to the extent that production volumes are insufficient to utilise the full entitlement. Coal & Allied constantly explores its options for securing the most reliable and cost effective coal chain capacity, but is at the same time mindful not to over commit to take or pay capacity.

vi. Coal & Allied operates in a highly competitive labour market

Competitors in the Hunter Valley are expanding their operations and recruiting more employees which may lead to a contractor and temporary labour shortfall within Coal & Allied's operations.

Coal & Allied is seeking to increase its employee base which will mitigate against contractor and temporary labour shortfalls. Coal & Allied is also seeking to recruit from outside the existing labour pool within the Hunter Valley to assist with cultural change and improved productivity.

vii. Government policy and community disputes could affect Coal & Allied's operations or its reputation

Coal & Allied operates in the Hunter Valley in New South Wales where mining development consents are granted for periods not in excess of 21 years, after which time a new development consent must be obtained in order to continue mining operations. Administrative change, policy reform, changes in law or governmental regulations at a local, state or federal level can result in changes in the requirements for obtaining mining leases and/or development consents. Onerous operating obligations and changes in fiscal policies (including increased tax or royalty rates) are possible consequences. The consequences of such changes could have a material adverse effect on the profitability, the ability to finance or, in extreme cases, the viability of an operation.

Moreover, the time involved in obtaining Australian and New South Wales Government required approvals and consents for coal mining operations has become an increasingly difficult issue for Coal & Allied in recent years and a potential constraint to the realisation of growth plans and the continuation of existing operations.

All of Coal & Allied's operations and undeveloped properties are located in close proximity to inhabited areas and these communities may regard such operations as having a detrimental effect on their environmental, economic or social circumstances. The consequences of community reaction to cumulative issues associated with existing operations and the development of new projects could have a material adverse impact on their cost, profitability, and development timetable.

viii. Coal & Allied's land and resource tenure could be disputed resulting in disruption and/or impediment in the operation or development of a resource

Title to land and rights in respect of land and resources, including indigenous title, may be unclear and may lead to disputes over resource development. Such disputes could disrupt or delay and/or impede Coal & Allied's ability to develop new projects and may have a material adverse effect on Coal & Allied's results of operations and/or prospects.

ix. Coal & Allied's operations are resource intensive and changes in the cost and/or interruptions on the supply of energy, water, fuel or other key inputs could adversely affect their economic viability

Coal & Allied's operations are resource intensive and, as a result, its costs and profitability may be adversely affected by the availability or cost of energy, water, fuel or other key inputs. If Coal & Allied experiences interruptions in, or constraints on, its supply of energy, water, fuel or other key inputs, Coal & Allied's costs could increase and its results could be materially adversely affected.

x. Estimates of coal reserves are based on certain assumptions and so changes in such assumptions could lead to reported coal reserves being restated

There are numerous uncertainties inherent in estimating coal reserves (including subjective judgments and determinations based on available geological, technical, contracted and economic information) and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of coal, exchange rates, taxation laws, royalty rates, production costs or wash plant yields may result in the stated reserves ceasing to be economically viable. This may, ultimately, result in the reserves needing to be restated. Such changes in reserves could also affect depreciation and amortisation rates, asset carrying values and provisions for close down, restoration and environmental clean-up costs.

xi. There may be future, potential changes to State Government coal royalties and federal resource taxation

State royalties

State Governments in Australia have in recent years substantially increased royalties applicable to coal. Any future increases in Federal or State taxes, duties or royalties may not be able to be passed on in full to customers or may result in Coal & Allied's pricing becoming uncompetitive in the international market.

The New South Wales Government announced an increase in coal royalties for companies that are subject to the Australian Government's proposed Mineral Resource Rent Tax (MRRT), to which Coal & Allied will be subject.

The New South Wales Government has stated its intention to implement the royalty supplement after the Australian Government finalises its carbon tax and MRRT legislation.

In its announcement concerning the proposed increase in coal royalties, the New South Wales Government stated:

"As the Australian Government has a commitment to compensate mining companies for any royalties that are paid to State Governments, the increase in royalties will not be an additional tax burden on mining companies."

As at the date of the Scheme Booklet, the final legislation for the Australian Government's MRRT and proposed carbon tax and the legislation for the increase in New South Wales Government's coal royalties have not been available. Accordingly, there is a risk that the royalty changes when introduced could have an impact on Coal & Allied's profitability, operations or both.

MRRT

The MRRT was proposed by the Australian Federal Government on 2 July 2010, after the Resource Super Profits Tax (RSPT) failed to gain widespread support. The MRRT is intended to apply from 1 July 2012 to iron ore and coal projects which meet certain threshold criteria. The final MRRT legislation is yet to be resolved and therefore the impact of the proposed MRRT is still uncertain, however the introduction of the MRRT may have an adverse effect on Coal & Allied's revenues, earnings and cash flows.

b. Operational risks

i. Labour disputes could lead to lost production and/or increased costs

Some of Coal & Allied's employees are represented by labour unions under various collective labour agreements. Coal & Allied satisfactorily renegotiated collective labour agreements for HVO and MTW operations that expired during 2010. It also recently negotiated a four year collective enterprise agreement for Bengalla operations, which is the first collective agreement for that site. However, any strike or other work stoppage, even if unlawful, could have a material adverse effect on Coal & Allied's earnings and financial condition.

ii. Coal & Allied's mining operations are vulnerable to natural disasters and operating difficulties

Mining operations are vulnerable to natural disasters, including earthquakes, drought, floods, fire, and the physical effects of climate change. Operating difficulties, such as unexpected geological variations that could result in significant failure (including highwall failure, dragline inoperability or fire within the processing facilities) could affect the costs and viability of its operations for indeterminate periods. Coal & Allied's insurance coverage can provide protection from some, but not all, of the costs that may arise from unforeseen events.

iii. Infrastructure constraints could have a material impact on Coal & Allied's productivity

Coal & Allied requires reliable roads, rail networks, ports and power and water infrastructure to access and conduct its operations. The availability and cost of this infrastructure affects capital and operating costs and Coal & Allied's ability to maintain expected levels of production and sales. In particular, Coal & Allied exports nearly all of its coal by sea to markets predominantly in Asia, but also Europe. Coal & Allied competes with a number of other exporters for limited storage and berthing facilities at ports, which can result in production cutbacks imposed by the allocation of port capacity by the port operators and delays in loading the ships, which exposes Coal & Allied to demurrage costs.

Limitations or interruptions in rail or shipping capacity at the port of Newcastle could impede Coal & Allied's ability to deliver its products on time. This could have a material adverse effect on Coal & Allied's business, results of operations, financial condition and prospects.

iv. Possible loss scenarios not all covered by insurance

Coal & Allied's insurance does not cover every potential risk associated with its operations. Adequate coverage at reasonable rates is not always obtainable. In addition, Coal & Allied's insurance may not fully cover its liability or the consequences of any business interruptions such as equipment failure or labour dispute. The occurrence of a significant adverse event not fully or only partially covered by insurance could have a material adverse effect on Coal & Allied's business, results of operations, financial condition and prospects.

v. Coal & Allied's costs of close down and restoration, and for environmental clean-up, could be higher than expected due to unforeseen changes in legislation, standards and techniques

Underestimated or unidentified costs could have a material adverse impact on Coal & Allied's reputation and results of operations.

Close down and restoration costs include the dismantling and demolition of infrastructure and the remediation of land disturbed during the life of mine and operations. Estimated costs are provided for over the life of each operation based on the net present value of the close down and restoration costs. The estimated costs are updated annually but the provisions might prove to be inadequate due to changes in legislation, standards and the emergence of new restoration techniques. Furthermore, the expected timing of expenditure could change significantly due to changes in commodity prices which might substantially curtail the life of an operation. These provisions could, however, be insufficient in relation to the actual cost of restoration or the cost of remediating or compensating damage including to land or other elements of the environment outside the site boundary. Any underestimated or unidentified close down and restoration costs could have a material adverse effect on Coal & Allied's reputation as well as its asset values, earnings and cash flows.

vi. Coal & Allied may be exposed to major failures in the supply chain for specialist equipment and materials

Coal & Allied operates within a complex supply chain dependent on suppliers of raw materials, services and equipment to ensure that its mines and process plants can operate, as well as on the providers of logistics and infrastructure necessary to deliver coal to customers. Failure of significant components of the supply chain due to third party business failure or serious operational factors could have an adverse impact on Coal & Allied's business and operations.

vii. Joint ventures and other strategic partnerships may not be successful

Coal & Allied participates in several joint venture arrangements. Although Coal & Allied has, in relation to its existing joint ventures, sought to protect its interests, joint ventures necessarily involve special risks. Whether or not Coal & Allied holds majority interests or maintains operational control in its joint ventures, its partners may:

- have economic or business interests goals that are inconsistent with or opposed to those of Coal & Allied;
- exercise veto rights so as to block actions that Coal & Allied believes to be in its or the joint venture's best interests;
- take action contrary to Coal & Allied's policies or objectives with respect to its investments; or
- as a result of financial or other difficulties, be unable or unwilling to fulfil their obligations under the joint venture or other agreements, such as contributing capital to expansion or maintenance projects.

viii. Coal & Allied competes with other companies for coal related assets and interests

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. Coal & Allied competes with other mining companies for the acquisition of coal claims, leases and other coal interests and their development, as well as for the recruitment and retention of qualified employees and other personnel.

Failure to secure relevant assets, development licenses or environmental approvals, amongst other things, may impact Coal & Allied's ability to grow its business.

ix. Potential delays to any future mining operations

New mining operations often experience unexpected problems and delays during development, construction and mine start-ups which delay the commencement of mineral production and may impact on Coal & Allied's growth.

x. Financing risks

Coal & Allied's ability to service its debt from time to time will depend on its future performance and cashflows, which will be affected by many factors, some of which are beyond Coal & Allied's control.

xi. Changes in accounting policies

Coal & Allied will be subject to the usual business risk that there may be changes in accounting policies which have an adverse impact on Coal & Allied.

c. Sustainable development

i. Health, safety, environmental and other regulations, standards and expectations evolve over time and unforeseen changes could have an adverse effect on Coal & Allied's earnings and cash flows

Coal & Allied operates in an industry that is subject to numerous health, safety and environmental laws, regulations and standards, as well as community and stakeholder expectations. Coal & Allied is subject to extensive government regulation. Operations are subject to general and specific regulations governing mining and processing, land tenure and use, environmental requirements (including site specific environmental licences, permits and statutory authorisations), workplace health and safety, social impacts, trade and export, corporations, competition, access to infrastructure, foreign investment and taxation. Evolving regulatory standards and expectations can result in increased litigation and/or increased costs, all of which can have a material and adverse effect on earnings and cash flows.

ii. Increased regulation of greenhouse gas emissions could adversely affect Coal & Allied's cost of operations

Coal & Allied's operations are energy intensive and depend on the use of fossil fuels. Increasing regulation of greenhouse gas emissions in Australia, including the introduction of carbon emissions trading or pricing mechanisms and tighter emission reduction targets is likely to raise energy and production costs to a material degree over the next decade.

On 10 July 2011, the Federal Government announced the proposed fixed carbon price commencing on 1 July 2012 to operate for three years before transitioning to a cap and trade emissions trading scheme. The fixed price will commence at \$23 per tonne of CO₂, indexed at 2.5% in real terms.

The Australian Government's proposed carbon tax will impose additional cost pressures on Coal & Allied's coal operations and future developments. Moreover, it is not likely that Coal & Allied will be eligible for any direct transitional assistance under the proposed scheme. The Australian Government has announced that it proposes to introduce legislation to price carbon emissions. Although Coal & Allied is prepared to manage the impact from the introduction of the carbon emissions trading scheme and it has included a price for carbon in the evaluation of future investment plans, its operations and the Mount Pleasant project are either at or below the mid-point for estimated fugitive emissions from Australian coal miners. Further disclosures on these risks and the Coal & Allied environmental management policies and greenhouse emissions are included in the 2010 Annual Report which is available to view and download from the Coal & Allied Website.

If other international coal producers who supply into the seaborne market are not subject to similar cost impost as Australian coal producers, this could adversely impact on Coal & Allied's competitiveness in the international market and its prospects, profitability and financial position.

Regulation of greenhouse gas emissions in the jurisdictions of Coal & Allied's major customers and suppliers, as well as in relation to international shipping, could also have an adverse effect on the demand for Coal & Allied's products.

iii. The Group depends on the continued services of key personnel

The Group's ability to maintain its competitive position and to implement its business strategy is dependent on the services of key engineering, managerial, financial, commercial, marketing and processing personnel. Loss or diminution in the services of key employees, particularly as a result of an inability to attract and retain staff, or Coal & Allied not maintaining a competitive remuneration structure could have an adverse effect on Coal & Allied's business, financial condition, results of operations and prospects.

Competition for experienced people with international engineering, mining, metallurgy and geological expertise is high, due to a small pool of individuals against medium to high demand. This may affect Coal & Allied's ability to retain its existing senior management, marketing and technical personnel and to attract qualified personnel on appropriate terms. Similar competition may be felt by Coal & Allied's key contractors and suppliers that, in turn, could affect Coal & Allied's expansion plans.

SECTION 4

Information about Hunter Valley Resources, Rio Tinto
and Mitsubishi Development

For personal use only

4. Information about Hunter Valley Resources, Rio Tinto and Mitsubishi Development

4.1 Profile of Hunter Valley Resources

a. Overview

Hunter Valley Resources was incorporated under the laws of Victoria for the purpose of acquiring Coal & Allied Shares not held by ACH and Mitsubishi Development.

b. Ownership structure of Hunter Valley Resources

As at the date of this Scheme Booklet, the issued share capital of Hunter Valley Resources is comprised of 1 A class share, held by Rio Tinto Coal NSW (a wholly owned Subsidiary of Rio Tinto); and 4 B class shares, held by Mitsubishi Development. Hunter Valley Resources is a Subsidiary (and therefore a related body corporate) of each of Rio Tinto and Mitsubishi Development.

If the Scheme becomes Effective, Rio Tinto Coal NSW and Mitsubishi Development will each subscribe for and Hunter Valley Resources will issue Rio Tinto Coal NSW and Mitsubishi Development shares in Hunter Valley Resources in accordance with the terms of the Framework Agreement. The Subscription Arrangements are set out in further detail in Section 4.5(a)(vi).

It is intended that following the allotment of Hunter Valley Resources shares in accordance with the Subscription Arrangements, Mitsubishi Development and Rio Tinto Coal NSW will hold 69.57317% and 30.42683%, respectively, of the issued share capital of Hunter Valley Resources. Rio Tinto Coal NSW will hold A class shares, and Mitsubishi Development will hold B class shares.

The relationship between Rio Tinto Coal NSW and Mitsubishi Development as the sole shareholders of Hunter Valley Resources is regulated by Hunter Valley Resources' constitution.

c. Directors of Hunter Valley Resources

All directors on the Hunter Valley Resources Board are nominees of Rio Tinto Coal NSW and Mitsubishi Development as holders of the A class shares and B class shares, respectively.

Rio Tinto Coal NSW, as the holder of all the A class shares in Hunter Valley Resources, is currently entitled to appoint three directors to the Hunter Valley Resources Board; and Mitsubishi Development, as the holder of all the B class shares in Hunter Valley Resources, is currently entitled to appoint two directors to the Hunter Valley Resources Board. From the earlier of the Effective Date and the date the Shareholders Agreement becomes effective, each shareholder will be entitled to appoint one director to the Hunter Valley Resources Board for each 20% of the shares in Hunter Valley Resources it holds.

The directors of Hunter Valley Resources as at the date of this Scheme Booklet are as follows:

- Graham John Reid
- Mark Pisarek
- Stuart James Watson
- Yasuharu Tanaka
- Deanna Maree Constable

Brief profiles of the current directors of Hunter Valley Resources are set out below.

Graham Reid, BA, LLM, age 57: Graham joined Rio Tinto in 1981 and has held various legal and commercial positions, the most recent of which is Chief Counsel for Rio Tinto Limited. Prior to joining Rio Tinto, Graham worked as a solicitor with Blake & Riggall in Melbourne.

Mark Pisarek, BEng, age 40: Mark joined Rio Tinto in 1993 as a graduate engineer and has worked in a variety of technical and commercial roles in the Aluminium and Energy Product Groups. He is currently Manager Business Development within Rio Tinto's Coal Development Group.

Stuart Watson, CEng, MEng MBA, age 39: Stuart joined Rio Tinto as Programme Manager for Rio Tinto's Marketing Centre in 2006 and subsequently went on to lead the Markets Team within Rio Tinto's Economics and Markets unit before taking on a General Manager role within Rio Tinto's Coal Development Group. Prior to joining Rio Tinto, Stuart held senior positions within the Natural Resources and Supply Chain Practices of the management consulting firm, Accenture.

Yasuharu Tanaka, B.A. in Commerce, age 41: Yasuharu joined Mitsubishi Development in 2008 and is currently General Manager of Corporate Planning and Thermal Coal. Prior to joining Mitsubishi Development, he spent 14 years with Mitsubishi Corporation in various business development positions focusing on the mining sector.

Deanna Constable, BCom, LLB (Hons), MLM, age 40: Deanna joined Mitsubishi Development in 2006 after working for 13 years with national law firm, Freehills. Deanna is General Counsel and Company Secretary of Mitsubishi Development and a director of AMPLA, The Australian Resources and Energy Law Association.

4.2 Profile of Rio Tinto group

a. Overview of Rio Tinto group

Rio Tinto group is a leading international mining group, combining Rio Tinto plc and Rio Tinto Limited in a dual listed company structure (**DLC**). The DLC means that all Rio Tinto group assets are managed on a unified basis and that the boards of both companies are identical. Both companies retain legal entities with separate share listings and registers. Rio Tinto plc is incorporated under the laws of England and Wales and Rio Tinto Limited is incorporated in Victoria, Australia.

Rio Tinto group's international headquarters are in London, England. Rio Tinto group's office in Melbourne, Victoria provides support for operations, various corporate services and external and investor relations, and fulfils statutory obligations in Australia. Rio Tinto group operates in approximately 50 countries.

Rio Tinto group's fundamental objective is to maximise shareholder return by sustainably finding, developing, mining and processing natural resources. It aims to do this through a strategy of investing in and operating large, long term, cost competitive mines and businesses, driven not by choice of commodity but by the quality of each opportunity.

Rio Tinto group owns some of the world's best mining assets, so it believes it is well placed to achieve its objective. As a highly capable organisation with global reach, Rio Tinto group is able to respond to rising demands for metals and minerals from both developed and emerging economies and its strategy means that it can rely on future cash flows from operations at every stage of the commodity cycle.

Rio Tinto group integrates sustainable development practices into everything it does, wherever it operates: building on improvements to safety performance and extending leadership in areas such as community and government engagement, biodiversity and management of land, carbon, water and energy.

Success in these areas helps strengthen its licence to operate. As Rio Tinto group becomes increasingly known as a socially responsible developer, it gains improved access to land, people and capital – all of which are essential to its future success.

Collectively, Rio Tinto group's strengths – a diverse portfolio; high quality people and assets; and expertise in exploration, technology, innovation and marketing – provide it with its unique strategic advantage. This advantage allows it to meet the needs of a wide variety of customers while generating sufficient return to reinvest in Rio Tinto group's businesses and new projects.

Rio Tinto group's management structure facilitates a clear focus on business performance and Rio Tinto group's objectives. The management structure is based on five principal commodity groups:

- Iron Ore;
- Copper;
- Aluminium;
- Energy; and
- Diamonds & Minerals.

Exploration and technology resources are managed through separate Exploration and Technology & Innovation groups.

On 13 October 2011, Rio Tinto plc had a market capitalisation of £47.9 billion (US\$75.3 billion) and Rio Tinto had a market capitalisation of AUD30.2 billion (US\$30.6 billion). Rio Tinto group's combined market capitalisation at 13 October 2011 was approximately AUD104.5 billion (US\$105.9 billion).

In the reviewed half-year accounts at 30 June 2011 (Rio Tinto group has a financial year end at 31 December), Rio Tinto group had operating assets of US\$73.3 billion, including US\$14.4 billion in Iron Ore, US\$9.8 billion in Copper, US\$40.1 billion in Aluminium, US\$7.4 billion in Energy and US\$4.6 billion in Diamonds & Minerals. For the year ending 31 December 2010 Rio Tinto group's cash flow from operations was US\$23.5 billion, underlying earnings was US\$14.0 billion and net earnings was US\$14.2 billion.

b. ACH and Rio Tinto Coal NSW

Rio Tinto group holds its Coal & Allied Shares through ACH, a wholly-owned Subsidiary of Rio Tinto. ACH is the current holding company for Rio Tinto's Australian coal operations and currently holds 75.71% of Coal & Allied Shares.

Rio Tinto Coal NSW has been incorporated as a wholly-owned Subsidiary of Rio Tinto for the purposes of holding certain of the Rio Tinto group's interests in New South Wales coal operations.

c. Where to find further information on Rio Tinto group

Rio Tinto group maintains a website (www.riotinto.com) from which its reports and many of its other publications can be downloaded in their entirety and which is linked to websites maintained by some of Rio Tinto group's operations and other sites of general interest.

In addition, information on Rio Tinto can be found on the ASX website at www.asx.com.au

4.3 Profile of Mitsubishi Development

a. Overview of Mitsubishi Development

Mitsubishi Development currently owns 10.20% of all Coal & Allied Shares.

Mitsubishi Development is a wholly owned Subsidiary of Mitsubishi Corporation, a company incorporated under the laws of Japan. Mitsubishi Development was established in 1968 as a strategic vehicle for Mitsubishi Corporation's involvement in the Australian coal industry. It is headquartered in Sydney, Australia and now produces a diverse range of products including hard coking coal, semi-soft coking coal and thermal coal.

Apart from its investment in Coal & Allied, Mitsubishi Development has a number of other direct and indirect interests in coal mines and other resources projects in Australia. Its major assets include an interest in the BHP Billiton Mitsubishi Alliance (coking coal), the Clermont Mine (thermal coal), the Warkworth Mine (thermal coal/semi-soft coking coal), the Ulan Mine (thermal coal), Crosslands Resources Limited (iron ore), the Oakajee port and rail project and the Kintyre project (uranium).

Mitsubishi Development's strategy is to focus on large scale, long-life and cost competitive mining operations, and to invest in each such asset continuously throughout its life span so that it maintains its competitive position. Mitsubishi Development is committed to achieving greater economic value by investing further capital expenditure in strategic assets, subject always to rigorous analysis and value engineering.

b History of Mitsubishi Development's relationship with Coal & Allied

Mitsubishi Development acquired its current shareholding in Coal & Allied as a result of a share issue in 1999, which was in consideration for the sale of 40% of the Howick Mine and the Oaklands Exploration Joint Venture to Coal & Allied, and through an on-market acquisition in 2002.

Mitsubishi Development currently has a nominee director on the Coal & Allied Board, Kaoru Yamanaka.

c. Directors of Mitsubishi Development

The current directors of Mitsubishi Development are:

- Jun Kinukawa;
- Michio Taki;
- Iwao Toide;
- Kaoru Yamanaka;
- Masao Yamada;
- Hiroshi Kuwata; and
- Tetsu Kotaki.

d. Overview of Mitsubishi Corporation

Mitsubishi Corporation is headquartered in Tokyo, Japan with operations in approximately 80 countries worldwide and a network of over 500 group companies, employing a multinational workforce of nearly 60,000 people.

Mitsubishi Corporation is a global integrated business enterprise that develops and operates businesses across many industries including industrial finance, energy, metals, machinery, chemicals, foods, and environmental business, with a market capitalisation of JPY2,599.6 billion (approximately \$33.0 billion) as at 13 October 2011, and a strong balance sheet and investment grade rating.

In the audited full year financial results for the year ended 31 March 2011 (Mitsubishi Corporation has a financial year end at 31 March), Mitsubishi Corporation had total assets of JPY11,347.4 billion. For the year ending 31 March 2011 Mitsubishi Corporation's cash flow from operating activities was JPY331.2 billion, net income attributable to Mitsubishi Corporation was JPY463.2 billion, including JPY135.8 billion of equity in earnings from Mitsubishi Development.

Mitsubishi Corporation's current activities have expanded beyond its traditional trading operations and, today, its diverse business ranges from natural resources development to investment in retail business, infrastructure, financial products and manufacturing of industrial goods.

Mitsubishi Corporation is listed on the Tokyo, Osaka, Nagoya and London stock exchanges. Its shares, in the form of American Depository Receipts, are also traded on the over-the-counter market in the United States.

e. Where to find further information on Mitsubishi Corporation

Mitsubishi Corporation is subject to the timely disclosure requirements of the Tokyo Stock Exchange and other stock exchanges on which its shares are listed (as noted above).

A substantial amount of further information concerning Mitsubishi Corporation is available from its website (www.mitsubishicorp.com/jp/en/).

f. Statement of amounts

The \$ amounts in this Section have been stated on the basis of an AUD/JPY exchange rate of 78.83 and they are accurate as at 13 October 2011.

4.4 Sources of Consideration

a. Total Consideration for the Acquisition of Coal & Allied Shares

The consideration for the acquisition of the Coal & Allied Shares by Hunter Valley Resources will be satisfied by the payment of cash (in Australian dollars).

As at the date of this Scheme Booklet, there are 86,584,735 Coal & Allied Shares on issue, of which ACH and Mitsubishi Development, being Excluded Shareholders, are the registered holders of 74,385,119 in aggregate. The number of Coal & Allied Shares to be acquired by Hunter Valley Resources under the Scheme is therefore 12,199,616. Accordingly, based on the Scheme Consideration of \$125.00 for each Scheme Share (less the amount of any Special Dividend), the maximum total Scheme Consideration that will be payable by Hunter Valley Resources is \$1,524,952,000 (the **Total Scheme Consideration**).

b. Overview of Funding Arrangements for the Acquisition of Coal & Allied Shares

i. The Subscription Arrangements

The necessary funds to pay the Total Scheme Consideration will be obtained by Hunter Valley Resources through the issue of shares to Rio Tinto Coal NSW and Mitsubishi Development under the Subscription Arrangements.

Under the Subscription Arrangements, ACH and Mitsubishi Development have each unconditionally undertaken to subscribe for, or procure that one of their Related Bodies Corporate subscribes for, shares in Hunter Valley Resources and together pay Hunter Valley Resources subscription monies in respect of those shares which are in aggregate sufficient to fund the Total Scheme Consideration. ACH will procure that Rio Tinto Coal NSW subscribes for shares in Hunter Valley Resources.

Hunter Valley Resources has unconditionally undertaken to issue the relevant shares to the subscribing entities.

ii. Escrow Arrangements

Computershare Investor Services Pty Limited has established an escrow account (the **Escrow Account**) and been appointed by Rio Tinto Coal NSW and Mitsubishi Development as escrow agent with respect to that account.

Rio Tinto Coal NSW and Mitsubishi Development have deposited funds into the Escrow Account sufficient to pay the Total Scheme Consideration. Those funds are available for drawdown by Hunter Valley Resources in accordance with the Subscription Arrangements at call (without the need to satisfy any conditions precedent) for the purposes of paying the Total Scheme Consideration on the Implementation Date. Subject to the Special Dividend Loan arrangements set out in Section 4.4(c), funds will not otherwise be withdrawn from the Escrow Account unless the Framework Agreement is terminated in accordance with its terms (see Section 4.5(a)(vii)).

c. Consideration for the Funding of the Special Dividend Loan

i. Consideration for the Funding of the Special Dividend Loan

ACH, Mitsubishi Development and Hunter Valley Resources have each agreed to provide Coal & Allied with an unsecured loan in an amount equal to the aggregate cash amount of any Special Dividend, in the following proportions:

- ACH, 75.71% of the aggregate cash amount of any Special Dividend;
- Mitsubishi Development, 10.20%; and
- Hunter Valley Resources, 14.09%.

The Special Dividend Loan has been negotiated on arm's length commercial terms and is subject to the Scheme becoming Effective, a ruling (or a draft of that ruling) being issued by the ATO and satisfaction of standard documentary conditions precedent.

ii. Rio Tinto's Funding for Special Dividend Loan Arrangements

Rio Tinto has irrevocably and unconditionally undertaken to ACH that it will have access to cash reserves and undrawn facilities of Rio Tinto Finance (a wholly-owned Subsidiary of Rio Tinto) which are, in aggregate, sufficient and available at all times to allow ACH to meet the relevant obligations under the Special Dividend Loan.

As at 13 October 2011, Rio Tinto Finance had immediately available cash reserves in excess of \$8.7 billion held on deposit with several investment grade international banks and liquidity funds. Rio Tinto Finance also has access to a \$6 billion undrawn committed available revolving credit facility, terminating on 12 November 2015, to fund Rio Tinto group expenses.

iii. Mitsubishi Development's Funding for Special Dividend Loan Arrangements

Mitsubishi Development will source the funds it has undertaken to provide or procure to provide to Coal & Allied under the Special Dividend Loan from its immediately available cash reserves.

As at 13 October 2011, Mitsubishi Development had immediately available cash reserves in excess of \$650,000,000 held on deposit with several investment grade Australian and international financial institutions. The funds available from Mitsubishi Development's existing cash reserves are sufficient to satisfy its obligations under the Special Dividend Loan.

iv. Hunter Valley Resources' Funding for Special Dividend Loan Arrangements

As detailed in Section 6.2, the Scheme Consideration of \$125.00 per Coal & Allied Share will be reduced by the cash amount of any Special Dividend that is paid by Coal & Allied on the Implementation Date.

As detailed in Section 4.4(b), Hunter Valley Resources has access to an amount of funds sufficient to pay the Total Scheme Consideration via the Escrow Account. To the extent that the Total Scheme Consideration is to be reduced due to the payment of the Special Dividend, the excess funds in the Escrow Account will be used by Hunter Valley Resources to meet its obligation to lend funds to Coal & Allied under the Special Dividend Loan.

4.5 Summary of Joint Bidding Arrangements

a. Summary of the Framework Agreement

On 26 August 2011, Hunter Valley Resources, ACH and Mitsubishi Development entered into the Framework Agreement for the purposes of agreeing, as between the parties, the terms on which the Scheme is to be structured, proposed and implemented, the terms on which they will co-operate to meet their objectives and the rights and obligations of each party in relation to these matters.

In respect of various obligations and rights of ACH under the Framework Agreement that are stated to be obligations or rights for the benefit of "ACH (or its Related Bodies Corporate)", it is the intention of ACH to procure the performance of those obligations by, and provide the benefit of those rights to, Rio Tinto Coal NSW. Where the Framework Agreement refers to "ACH (or its Related Bodies Corporate)" in relation to any such obligation or right, this summary will make reference to Rio Tinto Coal NSW in place of ACH.

The key terms of the Framework Agreement are summarised below.

i. Restrictions

The parties have agreed that they shall not do any of the following without the prior written consent of the other parties:

- dispose of any Coal & Allied Shares other than to a Related Body Corporate;
- acquire or agree to acquire all or any part of Coal & Allied's assets;
- directly or indirectly solicit, initiate, participate in or encourage any inquiries, negotiations or discussions with any other person other than each other or each other's Related Bodies Corporate with respect to a competing transaction;
- enter into a reconstruction, rearrangement, merger, joint venture transaction or similar which may prejudice the successful completion of the Scheme or the objectives set out in the Shareholders Agreement;
- undertake any other action which may prejudice the successful completion of the Scheme or the objectives set out in the Shareholders Agreement; or
- amend or enter into any agreement, arrangement or understanding between it (or its Related Bodies Corporate) and Coal & Allied.

The restrictions above are in place for an initial period that commenced on the date of the Framework Agreement and will end on the earliest to occur of:

- the date that is four months after the date of the Framework Agreement;
- if the Section 611 Item 7 Resolution is put to Coal & Allied Shareholders for approval at the General Meeting but is not approved, the conclusion of that meeting; and
- termination of the Framework Agreement.

However, if the Section 611 Item 7 Resolution is passed at the General Meeting, then (irrespective of whether the Scheme Resolution is also passed) the restrictions above will continue until the earliest to occur of:

- the time the Shareholders Agreement comes into effect; and
- 12 months after the date the Section 611 Item 7 Resolution is passed,

(the **Ongoing Restriction Period**).

Each party has also undertaken that, from the date of the Framework Agreement:

- until its termination, neither it nor any of its Related Bodies Corporate will take any action which would put another party in breach of the Corporations Act, or put another party in breach of, or effect or require any variation of, any of the Scheme Implementation Agreement, Scheme and Deed Poll (collectively, the **Scheme Documents**);

- until the later of its termination and the end of the Ongoing Restriction Period, neither it nor any of its Related Bodies Corporate will acquire, agree to acquire or make any offer to acquire a Relevant Interest or economic interest in any Coal & Allied Share other than by reason of the Framework Agreement, the Shareholders Agreement or in accordance with the Scheme; and
- until the later of its termination and the end of the Ongoing Restriction Period, if it or any of its Related Bodies Corporate is approached by any other person to discuss a competing proposal, it will immediately inform the other parties and disclose to the other parties the name of that person, the details of the competing transaction and the substance of discussions with such person regarding the competing proposal.

ii. Acquisition under the Scheme

If the Scheme becomes Effective, the Scheme Shares will be acquired by Hunter Valley Resources. Hunter Valley Resources will be responsible for funding the consideration payable in respect of the acquisition of the Scheme Shares.

iii. Conduct of the Scheme

An appointed representative, who is a Rio Tinto Coal NSW nominee director on the Hunter Valley Resources Board, will be responsible for co-ordinating the day to day implementation and conduct of the Scheme on behalf of Hunter Valley Resources. The representative must undertake to do certain matters including implementing the decisions of the Hunter Valley Resources Board and dealing with all Scheme logistics insofar as they relate to Hunter Valley Resources.

The Framework Agreement requires that the Hunter Valley Resources Board must unanimously agree the terms of any proposal:

- to perform any obligation imposed on Hunter Valley Resources, or exercise any right or discretion conferred on Hunter Valley Resources under a Scheme Document;
- by any party to reach any agreement, arrangement or understanding with, or proposal to do so, with Coal & Allied or any Coal & Allied Shareholder;
- to waive any condition in the Scheme Implementation Agreement;
- to amend, assign or terminate a Scheme Document;
- to provide to Coal & Allied information required by the Scheme Implementation Agreement;
- by Hunter Valley Resources to make any application, submission or issue any material correspondence to Public Authorities;
- by any party to commence Takeovers Panel proceedings in relation to the Scheme;
- by Hunter Valley Resources to give any consent or notice under the Framework Agreement or any Scheme Document;
- by any party to purchase Coal & Allied Shares outside the Scheme;
- by any party to reach any agreement, arrangement or understanding with any third party regarding dealing in the assets of Coal & Allied or Coal & Allied Shares; or
- to issue an instruction in relation to the Escrow Account.

iv. Disclosure Documents

Hunter Valley Resources is required to prepare information required to be provided to Coal & Allied under the Scheme Implementation Agreement (and all other documents which the parties are required, or elect, to prepare in connection with the Scheme, collectively the **Disclosure Documents**) in consultation with ACH and Mitsubishi Development, and the parties must take all reasonable steps to ensure that each Disclosure Document complies with the Scheme Implementation Agreement, the Corporations Act, the Listing Rules and applicable ASIC regulatory guides.

The parties are required to provide the Hunter Valley Resources representative with all information necessary to ensure the Disclosure Documents are not misleading or deceptive and comply with the Corporations Act, the Listing Rules and applicable ASIC regulatory guides and update that information to the extent necessary.

v. Costs

All costs and expenses directly incurred by the parties in conducting the Scheme which are agreed between the parties or by the Hunter Valley Resources Board will be shared by ACH and Mitsubishi Development according to the proportion of Hunter Valley Resources shares to be acquired under the Subscription Arrangements. All other costs incurred are to be borne by the party that incurred them.

vi. Subscription Arrangements

If the Scheme becomes Effective, the parties have agreed terms on which Rio Tinto Coal NSW and Mitsubishi Development (or their Related Bodies Corporate) will each subscribe for, and Hunter Valley Resources will issue to Rio Tinto Coal NSW and Mitsubishi Development (or their Related Bodies Corporate), Hunter Valley Resources shares. Under the Subscription Arrangements:

- Rio Tinto Coal NSW and its Related Bodies Corporate will only subscribe for A class shares, and Hunter Valley Resources will only issue Rio Tinto Coal NSW and its Related Bodies Corporate A class shares, and

- Mitsubishi Development and its Related Bodies Corporate will only subscribe for B class shares, and Hunter Valley Resources will only issue Mitsubishi Development and its Related Bodies Corporate B class shares.

It is the parties' intention that if the Scheme becomes Effective, shares in Hunter Valley Resources will be issued to Rio Tinto Coal NSW and Mitsubishi Development (or their Related Bodies Corporate), so that all Coal & Allied Shares will be held as follows:

- Rio Tinto Coal NSW and its Related Bodies Corporate (directly and indirectly through Hunter Valley Resources) as to **80%**; and
- Mitsubishi Development and its Related Bodies Corporate (directly and indirectly through Hunter Valley Resources) as to **20%**.

On the basis of the number of Coal & Allied Shares on issue as at the date of this Scheme Booklet, Rio Tinto Coal NSW and Mitsubishi Development (or their respective Related Bodies Corporate) will subscribe for, and Hunter Valley Resources will issue, shares in Hunter Valley Resources so that Mitsubishi Development and Rio Tinto Coal NSW will hold 69.57317% and 30.42683%, respectively, of the issued share capital of Hunter Valley Resources.

vii. Termination

The Framework Agreement will terminate automatically:

- if the Section 611 Item 7 Resolution has not been passed within four months of the date of the Framework Agreement;
- if the Scheme Implementation Agreement is terminated;
- on the first Business Day after the Implementation Date; or
- if there is a bona fide competing proposal which involves the acquisition of Coal & Allied Shares, and Hunter Valley Resources does not match the consideration offered under that proposal (or announce an intention to do so) within five business days of that proposal becoming unconditional (except as to a minimum acceptance condition).

Additionally, ACH or Mitsubishi Development may terminate the Framework Agreement at any time if the other party is in material breach. Certain specified provisions and obligations within the Framework Agreement will survive termination.

If the Section 611 Item 7 Resolution is passed at the General Meeting, the restrictions described in Section 4.5(a)(i) will remain in place for the Ongoing Restriction Period even if the Framework Agreement has been terminated.

b. Summary of the Shareholders Agreement

On 26 August 2011, Hunter Valley Resources, ACH and Mitsubishi Development entered into the Shareholders Agreement. The Shareholders Agreement records the agreement between the parties as to the ownership, management and control of Coal & Allied, the distribution of its income and capital and other matters.

The key terms of the Shareholders Agreement are summarised below.

i. Effective Date

The operative provisions of the Shareholders Agreement will only become binding on and from the date upon which the Section 611 Item 7 Resolution has been passed and 100% of the Coal & Allied Shares are held by Hunter Valley Resources, ACH and Mitsubishi Development (or their Related Bodies Corporate).

As soon as practicable following the effective date as defined in the Shareholders Agreement, ACH and Mitsubishi Development will proceed to assume control over the operations of Coal & Allied and procure that the Coal & Allied Board consists of directors appointed in accordance with the Shareholders Agreement, Coal & Allied adopts a revised constitution and the parties to the proposed Management Services Agreement enter into that agreement.

ii. Objectives of Coal & Allied

The sole business objectives of Coal & Allied are to explore, mine for and produce coal within the Hunter Valley; market and sell the coal produced; and to contract or make investments in infrastructure related to the exploration mining and marketing of the coal, in each case with a view to maximising the long term sustainable value of Coal & Allied. The shareholders agree to exercise their rights and powers in a manner consistent with these objectives.

iii. Board Composition

The Coal & Allied Board will be composed of a maximum of ten directors. Each of ACH and Mitsubishi Development will be entitled to appoint one director to the Coal & Allied Board for every 10% of equity held by it (directly or indirectly).

iv. Board Meetings

The directors appointed by ACH and Mitsubishi Development present at a meeting will collectively have such number of votes as is equal to their respective appointor's proportion of equity (direct or indirect).

Resolutions of the board shall be passed by a simple majority decision of the directors.

All matters in connection with Coal & Allied are within the authority of the Coal & Allied Board, other than any matters which require a "Special Majority" (see below) or any other matters which require the approval or ratification of the Shareholders in accordance with the Shareholders Agreement or the mandatory requirements of applicable laws.

As long as Mitsubishi Development has a proportion of equity (direct or indirect) of 20% or more, the Special Majority matters described below will be referred to Shareholders for approval.

v. Shareholders' Meetings

A quorum for a Shareholders' Meeting is two shareholders which must include Hunter Valley Resources if Mitsubishi Development has a proportion of equity (direct or indirect) of 20% or more; and ACH if ACH has a proportion of equity (direct or indirect) of 40% or more.

Special Majority matters require a resolution passed at a Coal & Allied Shareholders' meeting:

- by more than 50% of the votes cast in favour by Coal & Allied Shareholders present and entitled to vote on the resolution; and
- if Mitsubishi Development has a proportion of equity (direct or indirect) of 20% or more and Mitsubishi Development and Hunter Valley Resources are entitled to vote on the resolution, where the votes cast by Hunter Valley Resources are in favour of the resolution.

Matters which require approval by a Special Majority include:

- the agreement of the Coal & Allied business plan and budget (if Coal & Allied Shareholders fail to approve a business plan or budget by Special Majority, a revised plan or budget can be approved by simple majority of the Coal & Allied Board);
- alterations to the share capital of Coal & Allied;
- entry into specified related party arrangements; and
- entry into any arrangements or understandings or incurring liabilities above specified thresholds.

Any proposal to amend the Coal & Allied constitution must be approved by ACH and Mitsubishi Development if they have a proportion of equity (direct or indirect) of 10% or more.

vi. Management

Rio Tinto Coal Australia will be appointed by Coal & Allied to provide management and marketing services to Coal & Allied in accordance with the Management Services Agreement. The Coal & Allied Board may give directions to Rio Tinto Coal Australia in its performance of these services.

No Coal & Allied Shareholder may disturb or interfere with the management of Coal & Allied nor has the authority to give directions to any officers or employees of Coal & Allied or Rio Tinto Coal Australia.

vii. Payment to Shareholders

ACH and Mitsubishi Development must ensure that Coal & Allied pays dividends on its after tax profits to the maximum extent practicable, subject to a decision by the Coal & Allied Board for the retention of profits for the following: capital adequacy; solvency; the repayment of debt; meeting expenditure contained in agreed, adopted or anticipated budgets and business plans; and provisioning for costs relating to the closure of mines and the rehabilitation of mine sites.

viii. Non-compete in Areas of Interest

Where ACH and Mitsubishi Development each has a proportion of equity (direct or indirect) of 20% or more in Coal & Allied, the following non-competitive provisions apply:

- subject to the below, each of ACH and Mitsubishi Development must not, and must procure that its respective Related Bodies Corporate (including Hunter Valley Resources) do not engage in any business within the Hunter Valley Coal Region (the **Areas of Interest**) of the same kind as the business of Coal & Allied (a **Relevant Business**);
- if either of ACH and Mitsubishi Development becomes aware of a Relevant Business being made available, or offered, to it (a **Competing Opportunity**), then that party must bring it to the attention of the Coal & Allied Board and make full disclosure of all material information of which they are aware in relation to the Competing Opportunity as soon as practicable;
- the party being offered the Competing Opportunity must procure that it is made available to Coal & Allied, and that party may only alternatively pursue the Competing Opportunity in certain specified subsisting circumstances; and
- either of ACH and Mitsubishi Development may acquire an interest in any entity or assets of an entity (an **Upstream Acquisition**) resulting in that party engaging in a Relevant Business, provided that it constitutes less than 50% of the total value of the business of the Upstream Acquisition. Following any such Upstream Acquisition, the acquiring party will offer the acquired Relevant Business to Coal & Allied.

ix. Financing

The business of Coal & Allied will be financed primarily from existing cash flows and debt finance from third parties.

The Coal & Allied Board may decide to finance through funding contributions provided by ACH and Mitsubishi Development, in proportion to their respective equity proportions (direct and indirect), by way of the issue of shares under the Shareholders Agreement or by shareholder loans provided in accordance with the Shareholders Agreement.

The Coal & Allied Board must offer each of ACH and Mitsubishi Development a first right of refusal to acquire its equity proportion (direct and indirect) of any unissued securities which it proposes to issue.

The amount of any funding to be provided by each of ACH and Mitsubishi Development by way of shareholder loan will be in proportion to their respective equity proportion (direct and indirect).

x. Disposal of Shares

A Coal & Allied Shareholder (excluding Hunter Valley Resources) is permitted to dispose all or some of its Coal & Allies Shares provided that:

- any transfer to a person other than a related body corporate of the selling shareholder must be to a person who is an "Eligible Purchaser";
- any transfer to an Eligible Purchaser requires the transferee to obtain all necessary regulatory authorisations and accede to the Shareholders Agreement; and
- in any disposal to an Eligible Purchaser, the transferor disposes of its Hunter Valley Resources shares in a proportion equal to the Coal & Allied Shares that are being disposed at the same time.

Hunter Valley Resources may not dispose of all or any of its Coal & Allied Shares without the prior written consent of both ACH and Mitsubishi Development.

If a Majority Shareholder (a shareholder with a proportion of equity (direct or indirect) of 50% or more) intends to dispose of some or all of its Coal & Allied Shares to an Eligible Purchaser, then where Mitsubishi Development is a Coal & Allied Shareholder and that disposal will result in the Majority Shareholder's total equity proportion being reduced to below 50%, the Majority Shareholder must provide a notice to Mitsubishi Development of its intention to dispose of the Coal & Allied Shares (the **Tag Along Notice**). The Tag Along Notice must include, amongst other things, an offer from the Eligible Purchaser to also acquire all of the Coal & Allied Shares and all of the Hunter Valley Resources Shares held by Mitsubishi Development on the sale terms.

xi. Default

It constitutes an event of default for a Coal & Allied Shareholder (excluding Hunter Valley Resources) to breach any of its obligations under the Shareholders Agreement in a material way, or where an insolvency event occurs in relation to a Coal & Allied Shareholder (excluding Hunter Valley Resources).

xii. Termination

The rights and obligations of the parties under the Shareholders Agreement terminate on the earliest of:

- any date agreed by all Coal & Allied Shareholders in writing;
- the date the Framework Agreement terminates in accordance with its terms (other than as a result of all of the Coal & Allied Shares being held by the parties, directly or indirectly);
- the date on which one Coal & Allied Shareholder owns all the Coal & Allied Shares; and
- the date on which Coal & Allied is wound up.

c. The proposed Management Services Agreement

The Shareholders Agreement provides that as soon as practicable following the Effective Date of that agreement, ACH and Mitsubishi Development will procure that Coal & Allied and Rio Tinto Coal Australia enter into the Management Services Agreement.

Under the Management Services Agreement, Rio Tinto Coal Australia will be appointed by Coal & Allied to provide management and marketing services to Coal & Allied. The terms of the appointment have been agreed between Rio Tinto and Mitsubishi Development on an arm's length basis and will broadly reflect the existing management and marketing arrangements that are currently in place between Coal & Allied and Rio Tinto Coal Australia.

4.6 Intentions

a. Introduction

This Section 4.6 sets out Hunter Valley Resources' intentions in relation to:

- the continuation of the business of Coal & Allied;
- any major changes to the business of Coal & Allied, including any redeployment of the fixed assets of Coal & Allied; and
- the future employment of the present employees of Coal & Allied,

if Hunter Valley Resources acquires all of the Scheme Shares on issue through implementation of the Scheme (other than Section 4.6(c) which sets out the intentions of Hunter Valley Resources in circumstances where the Scheme Resolution is not passed). The intentions of Rio Tinto and Mitsubishi Development in relation to Coal & Allied are the same as the intentions of Hunter Valley Resources.

These intentions reflect the terms of the Framework Agreement and the Shareholders Agreement and are based on information concerning Coal & Allied, its business and the general business environment which is known to Hunter Valley Resources, Rio Tinto and Mitsubishi Development as at the date of this Scheme Booklet.

The statements set out in this Section 4.6 are statements of current intention only, which may change as new information becomes available or as circumstances change.

b. Intentions

i. Corporate matters

It is intended that Hunter Valley Resources would:

- arrange for Coal & Allied to be removed from the official list of ASX; and
- replace all members of the Coal & Allied Board with nominees of ACH and Mitsubishi Development, in accordance with the Shareholders Agreement. The relevant nominees have not yet been identified. Final decisions on the selection of nominees will be made in light of the circumstances at the relevant time.

ii. Assets, operations and employees

Hunter Valley Resources has no current intentions to make changes to, or dispose of any material component of, Coal & Allied's assets or operations, other than those changes or disposals which are currently planned or proposed by Coal & Allied.

It is also Hunter Valley Resources' present intention to continue the employment of Coal & Allied's current management and employees.

iii. Intentions in relation to capital and distribution policy

Hunter Valley Resources has no current intention in relation to Coal & Allied raising additional capital.

Other than as disclosed in Section 4.6(b), Hunter Valley Resources has no current intention to significantly change the financial or dividend distribution policy of Coal & Allied.

c. Options to acquire further Coal & Allied Shares if Scheme voted down

If the Section 611 Item 7 Resolution is passed then (irrespective of whether the Scheme Resolution is also passed) the restrictions set out in Section 4.5(a)(i) will remain in place for the Ongoing Restriction Period. Although Rio Tinto, Mitsubishi Development and Hunter Valley Resources have no present intentions to pursue an alternative transaction in those circumstances, the parties will consider their options at the relevant time.

d. Limitations on intentions

The intentions and statements of future conduct set out in this Section 4.6 must be read as being subject to:

- the law (including the Corporations Act) and the ASX Listing Rules; and
- the legal obligation of Coal & Allied's directors at the time, including any nominees of ACH or Mitsubishi Development, to act in good faith in the best interests of Coal & Allied and for proper purposes and to have regard to the interests of all Coal & Allied Shareholders.

4.7 Additional Information

a. Interests in Coal & Allied Shares

As at the date of this Scheme Booklet:

- Hunter Valley Resources' voting power in Coal & Allied is 85.91%; and
- Hunter Valley Resources has a Relevant Interest in 74,385,119 Coal & Allied Shares.

b. No dealings in Coal & Allied Shares in the previous four months

Except for the consideration to be provided under the Scheme, neither Hunter Valley Resources nor any of its associates has provided, or agreed to provide, consideration for any Coal & Allied Shares under any purchase or agreement during the four months before the date of this Scheme Booklet.

c. No collateral benefits in the previous four months

During the four months before the date of this Scheme Booklet, neither Hunter Valley Resources nor any of its associates gave, or offered to give, or agreed to give a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

- vote in favour of the Scheme; or
- dispose of Coal & Allied Shares,

and which benefit was not offered to all Coal & Allied Shareholders.

d. ASIC modifications and waivers

ASIC has granted ACH, Mitsubishi Development and Hunter Valley Resources a modification of Section 609(7) of the Corporations Act.

Section 609(7) provides that a person does not have a Relevant Interest in securities merely because of an agreement, if the agreement is conditional on a resolution under Item 7 in Section 611 of the Corporations Act being passed and the agreement does not restrict disposal of the securities for more than three months from the date when the agreement is entered into (among other things).

The ASIC modification allows the Framework Agreement to operate on terms that restrict disposal of the parties' Coal & Allied Shares for a period of four months without obtaining a Relevant Interest in each others' Coal & Allied Shares, effectively providing four months for Coal & Allied Shareholder approval of the Joint Bidding Arrangements under the Section 611 Item 7 Resolution. This ensures the disposal restrictions can remain in place from the date of entry into the Framework Agreement (26 August 2011) until the General Meeting (28 November 2011). As explained in Section 4.5(a)(i), if the Section 611 Item 7 Resolution is passed at the General Meeting the disposal restrictions will remain in place in accordance with the Framework Agreement for the Ongoing Restriction Period.

e. No other material information

Except as disclosed elsewhere in this Scheme Booklet, there is no other information that is material to the making of a decision in relation to the Scheme, being knowledge that is within the knowledge of any director of Hunter Valley Resources, Rio Tinto or Mitsubishi Development, at the date of this Scheme Booklet, which has not been previously disclosed to Coal & Allied Shareholders.

SECTION 5

Taxation implications for Coal & Allied Shareholders

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5. Taxation implications for Coal & Allied Shareholders



19 October 2011

Coal & Allied Industries Limited

Directors
Coal & Allied Industries Limited
123 Albert Street
Brisbane QLD 4000

Dear Directors

Taxation Report

This letter has been prepared for the Directors of Coal & Allied Industries Limited (Coal & Allied) for inclusion in the Scheme Booklet for the Scheme of Arrangement in relation to the proposed acquisition of Coal & Allied Shares (other than those Coal & Allied Shares held by Excluded Shareholders) by Hunter Valley Resources Pty Ltd (Hunter Valley Resources), a company jointly owned by Rio Tinto Limited (Rio Tinto) and Mitsubishi Development Pty Ltd (Mitsubishi Development) (hereinafter referred to as the Scheme).

This letter should be read in conjunction with the remainder of the Scheme Booklet. Terms used in this letter are as defined in the Scheme Booklet, unless otherwise indicated.

This letter contains a general overview of the Australian income tax, Goods and Services Tax (GST) and stamp duty implications of the Scheme for Coal & Allied Shareholders who hold their Coal & Allied Shares on capital account, and who are Scheme Participants. As part of this overview, this letter considers:

- the Australian income tax implications of the proposed Special Dividend; and
- the Australian income tax implications of the disposal of Coal & Allied Shares under the Scheme.

This letter does not attempt to address all of the taxation consequences relevant to Coal & Allied Shareholders. In particular, this letter does not consider the consequences for Coal & Allied Shareholders who:

- hold their shares on revenue account or as trading stock;
- are exempt from Australian income tax;

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- are temporary residents of Australia; or
- are subject to the taxation of financial arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Coal & Allied shares.

Coal & Allied Shareholders should obtain, and rely only upon, their own independent taxation advice about the consequences of receiving the Special Dividend and disposing of their Coal & Allied Shares having regard to their own specific circumstances.

The overview in this letter is based on the relevant Australian tax legislation, public taxation rulings, determinations, other guidance and administrative practice as at the date of this letter. This letter does not take into account or anticipate any changes in the tax law or its administrative practise, nor does it take into account the tax law of countries other than Australia.

For the purpose of this letter:

- a Resident means a Coal & Allied Shareholder who is an Australian resident for Australian income tax purposes; and
- a Non-Resident means a Coal & Allied Shareholder who is not a Resident, other than those carrying on business in Australia at or through a permanent establishment in Australia.

1. Class Ruling sought from the Australian Taxation Office (ATO)

Coal & Allied has sought a Class Ruling from the ATO for Coal & Allied Shareholders in relation to the Australian income tax implications of the Scheme and the payment of the Special Dividend (the Tax Ruling).

Pursuant to the Scheme, the payment of the Special Dividend is conditional on, among other things, obtaining the Tax Ruling in a form acceptable to Coal & Allied and Hunter Valley Resources.

Our advice in this letter is based on the assumption that an acceptable Tax Ruling is obtained from the ATO. It is possible, however, that the ATO may take a different view in the Tax Ruling from that contained in this letter. In the event an acceptable Tax Ruling is not obtained from the ATO, the Special Dividend will not be paid. Coal & Allied will post the final Class Ruling on its website (www.coalandallied.com.au) as soon as it becomes available.

2. Australian income tax implications: Residents

2.1 Receipt of Special Dividend

(a) Assessability of Special Dividend

If all the conditions outlined in clause 2.4 of the Scheme Implementation Agreement are satisfied and Coal & Allied pays a Special Dividend, Coal & Allied Shareholders who receive the Special Dividend should include the Special Dividend in their assessable income in the income year in which they receive the Special Dividend.



(b) Holding period requirement and franking tax offset

If Coal & Allied pays a Special Dividend, the Special Dividend will be a fully franked dividend for income tax purposes. Accordingly, the amount included in assessable income should be the cash amount of the Special Dividend received, 'grossed-up' by the franking credits attached to the dividend subject to the Coal & Allied Shareholder being a 'qualified person' in relation to the Special Dividend.

Coal & Allied Shareholders should be entitled to offset their tax liability by the amount of franking credits attached to the Special Dividend, provided they are a 'qualified person' in relation to the Special Dividend.

A Coal & Allied Shareholder should be a 'qualified person' in relation to the Special Dividend if they hold their shares 'at risk' for at least 45 clear continuous days in the period from 28 October 2011 to 11 December 2011. Accordingly, a Coal & Allied Shareholder that acquires their Coal & Allied Shares any day up to and including 27 October 2011 and holds them until the Scheme Record Date on 12 December should be a 'qualified person' in relation to the Special Dividend.

Generally, a Coal & Allied Shareholder will be taken to hold their Coal & Allied Shares for these purposes from the time the shareholder acquires their Coal & Allied Shares. For acquisition of Coal & Allied Shares at a fixed price under an unconditional contract, the time of acquisition should be the time the contract for the acquisition is made.

To hold shares at risk, a Coal & Allied Shareholder must not have materially diminished risk of loss or opportunity for gain. Whether a Coal & Allied Shareholder holds their Coal & Allied Shares 'at risk' will depend on other arrangements they may have entered into in regard to their Coal & Allied Shares. If Coal & Allied Shareholders have entered into other arrangements in respect of their Coal & Allied Shares, they should seek independent taxation advice about the consequences of receiving the Special Dividend.

The holding period dates above are based on the Key Dates on page 4 of this Scheme Booklet, which are indicative only and are subject to change. Any change to any of the Key Dates will be notified to the ASX by announcement and will be placed on the Coal & Allied Website. Any taxation implications of any change to any of the Key Dates will also be advised.

(c) Refundable franking tax offset

Where their franking tax offset is higher than their tax liability for an income year, Coal & Allied Shareholders who are individuals or complying superannuation funds may be entitled to a refund of the excess franking tax offset received.



2.2 Disposal of Coal & Allied Shares

(a) Australian CGT

The disposal of Coal & Allied Shares by Coal & Allied Shareholders under the Scheme will give rise to a CGT event.

Scheme Participants will:

- make a capital gain if the capital proceeds from the disposal are greater than the cost base of their Coal & Allied Shares. The capital gain should be reduced by the cash component of the proposed Special Dividend (if the Special Dividend is paid by Coal & Allied); or
- make a capital loss if the capital proceeds from the disposal are less than the reduced cost base of their Coal & Allied Shares.

The cost base of Coal & Allied Shares is broadly the amount originally paid or deemed to be paid to acquire the Coal & Allied Shares plus certain transaction costs (if any) incurred in relation to the acquisition and disposal of the Coal & Allied Shares. The reduced costs base is determined in a similar manner.

The capital proceeds from the disposal will be equal to the Scheme Consideration (i.e. cash consideration and any cash component of the proposed Special Dividend) received under the Scheme in exchange for the Coal & Allied Shares. Under the terms of the Scheme, the capital proceeds for every Coal & Allied Share should be \$125.00.

To the extent to which a capital gain is derived by a Scheme Participant on disposal of their Coal & Allied Shares under the Scheme, the capital gain will be reduced by the cash component of the Special Dividend that is included in the Coal & Allied Shareholders' assessable income. The capital gain will not be reduced by the franking credits attached to the Special Dividend.

All capital gains and capital losses made by a Scheme Participant in an income year are aggregated to determine whether a net capital loss or net capital gain is made for that income year.

To the extent a net capital gain is derived in an income year, this amount is included in the Scheme Participant's assessable income. If a Scheme Participant incurs a net capital loss in an income year, this amount is not deductible from the assessable income of the Scheme Participant. However, the net capital loss may be carried forward and should be available to be offset against capital gains derived in subsequent years, subject to certain rules related to the recoupment of carried forward tax losses.

Broadly, individuals, trusts and complying superannuation funds that have held Coal & Allied Shares for at least 12 months prior to the Implementation Date of the Scheme should be entitled to the CGT discount in calculating the amount of capital gain on the disposal of their Coal & Allied Shares.



The applicable CGT discount which would reduce a capital gain arising from the disposal of Coal & Allied Shares is as follows:

- 50% for individuals and trustees (except a trust that is a complying superannuation trust); and
- 33.33% for a complying superannuation trust.

The CGT discount is not available to Coal & Allied Shareholders that are companies.

Scheme Participants who acquired their Coal & Allied Shares prior to 11:45am on 21 September 1999 can elect to apply indexation to the cost base of their shares up to 30 September 1999.

Scheme Participants who elect to apply indexation may not also apply the CGT discount.

(b) Example of how to calculate a capital gain derived on disposal of Coal & Allied Shares

The example below is for illustrative purposes only

A Resident Scheme Participant owns 100 Coal & Allied Shares. The Coal & Allied Shareholder's cost base per Coal & Allied Share for Australian CGT purposes is \$50.00, meaning that their cost base for all of their Coal & Allied Shares is \$5,000.

In line with section 2.2(a) above, the capital proceeds per Coal & Allied Share should be equal to \$125 (even if the Scheme Consideration is reduced by the amount of the Special Dividend under the Scheme), meaning the total capital proceeds for the Scheme Participant is \$12,500.

If a Special Dividend of \$8.00 per Coal & Allied Share is paid, the Scheme Participant will receive a total amount in respect of the Special Dividend of \$800. The Scheme Participant will be required to include the amount of the Special Dividend received (plus the amount of the franking credits attached) in its assessable income.

The capital gain arising for the Scheme Participant on disposal of their Coal & Allied Shares is calculated as follows:

Capital proceeds received = \$12,500 (\$125 x 100 shares)

Less Cost base of Coal & Allied Shares = \$5,000 (\$50 x 100 shares)

Prima facie capital gain = \$7,500

Less Special Dividend included in assessable income = \$800 (\$8.00 x 100 shares)

Total capital gain = \$6,700

In the event the Special Dividend is not paid, the capital gain derived by the Scheme Participant in the example above would be \$7,500.



3. Australian income tax implications: Non-Residents

3.1 *Receipt of Special Dividend*

If a Coal & Allied Shareholder is a Non-Resident, no Australian withholding tax should be deducted from the Special Dividend when paid to the Coal & Allied Shareholder, as it will be fully franked.

Non-Resident Coal & Allied Shareholders should not be liable for any Australian income tax in respect of the receipt of the Special Dividend.

3.2 *Disposal of Coal & Allied Shares*

The disposal of Coal & Allied shares should not give rise to any Australian CGT for a Non-Resident Scheme Participant provided that they hold less than 10% of the ordinary shares in Coal & Allied on the Implementation Date.

4. GST

No GST should be payable on the Special Dividend paid to Scheme Participants.

The disposal (within Australia) of the Coal & Allied Shares by Resident shareholders will be input taxed financial supplies, and therefore not subject to GST. The disposal of the Coal & Allied Shares by Non-Resident shareholders will generally be a GST free supply and also not subject to GST.

5. Stamp duty

No Australian Stamp duty should be payable by Coal & Allied Shareholders on the disposal of their Coal & Allied Shares pursuant to the Scheme.



* * *

The information contained in this document does not constitute "financial product advice" within the meaning of the Corporations Act 2001 (Cth) (Corporations Act). The PricewaterhouseCoopers partnership which is providing this advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product. This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs and consider obtaining independent financial advice.

Yours faithfully

A handwritten signature in black ink, appearing to read 'K Arblaster'.

Kirsten Arblaster
Partner

A handwritten signature in black ink, appearing to read 'H Scott'.

Hayden Scott
Partner

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SECTION 6

Additional information



6. Additional information

6.1 Management of potential conflict issues

Rio Tinto Coal Australia, a wholly owned Subsidiary of ACH, provides a comprehensive range of management services to Coal & Allied under a management services agreement dated 16 December 2003 between Coal & Allied and Rio Tinto Coal Australia (**MSA**). The MSA has enabled the management of Rio Tinto's coal assets in Queensland to be combined with the management of Coal & Allied's coal assets in New South Wales. A code of conduct adopted at the time the MSA was entered into regulates the way in which potential conflicts and related party issues are addressed in management of the combined businesses.

Following its receipt of the Indicative Proposal, in recognition of the potential for actual or perceived conflicts of interest, the Coal & Allied Board established the following measures to manage any such conflicts:

- a. the Proposal Response Committee, comprising Bryan Davis (Chairman), Annabelle Chaplain and Christopher Renwick, to consider the Indicative Proposal – none of the Proposal Response Committee members has been involved in the Indicative Proposal on behalf of Rio Tinto, Hunter Valley Resources or Mitsubishi Development; and
- b. protocols and procedures to manage, among other things, the flow of information between Rio Tinto employees involved in considering the Indicative Proposal on behalf of Coal & Allied and Rio Tinto (respectively).

6.2 Special Dividend

a. Background and conditions

Under the Scheme, Hunter Valley Resources will pay by way of Scheme Consideration the sum of \$125.00 for every Coal & Allied Share you hold on the Scheme Record Date (unless you are an Excluded Shareholder) less the cash amount of any Special Dividend that Coal & Allied pays.

Subject to the following conditions being satisfied:

- the Resolutions being passed at the Meetings which have been convened to be held on 28 November 2011;
- the Tax Ruling (or a draft of that ruling) being issued on acceptable terms (**Tax Ruling Condition**);
- the Court approving the Scheme on the Second Court Date; and
- the Scheme becoming Effective,

Coal & Allied expects to pay a fully franked Special Dividend of up to \$8.00 per Coal & Allied Share to all Coal & Allied Shareholders (including the Excluded Shareholders) who are on the Coal & Allied Register as at the Special Dividend Record Date.

Coal & Allied can give no assurance that the conditions for payment of the Special Dividend (as set out above) will be satisfied. However Coal & Allied expects to be in a position to announce whether the Special Dividend will be paid and, if so, the amount of the Special Dividend on the date of the Meetings, after the Meetings have been held, assuming both Resolutions are passed at the Meetings.

Coal & Allied will make an ASX announcement if the Tax Ruling Condition is satisfied before the date of the Meetings.

b. Impact of Special Dividend on Scheme Consideration

In the event that Coal & Allied pays a Special Dividend of \$8.00 per Coal & Allied Share then the amount that Hunter Valley Resources will pay by way of Scheme Consideration under the Scheme for each Coal & Allied Share will be reduced by \$8.00 for every Coal & Allied Share, from \$125.00 to \$117.00.

If Coal & Allied pays a Special Dividend in an amount that is less than \$8.00 per Coal & Allied Share then the Scheme Consideration that is payable by Hunter Valley Resources under the Scheme for each Coal & Allied Share will be reduced by the amount that is equivalent to the cash amount of the Special Dividend.

Section 5 includes a general description of the Australian income tax implications for Coal & Allied Shareholders who receive the Special Dividend (if it is paid). That description includes information regarding the eligibility of Coal & Allied Shareholders to offset their tax liability by the amount of franking credits attached to any such dividend.

c. Timing for payment

The Key Dates on page 4 of this Scheme Booklet provide information relating to both timing for the implementation of the Scheme and also for payment of the Special Dividend. These dates are indicative only and are subject to change.

Any change to any of the Key Dates will be notified to the ASX by announcement and will be placed on the Coal & Allied Website.

As at the date of this Scheme Booklet, Coal & Allied expects that:

- the Effective Date of the Scheme will be 1 December 2011. This is the date when a copy of the Court Order approving the Scheme will be lodged with ASIC;
- trading in Coal & Allied Shares on the ASX will cease at the close of trading on the Effective Date; and
- any Coal & Allied Shares that are traded on the ASX on the Effective Date will be registered on the Coal & Allied Register prior to both the Special Dividend Record Date (if a Special Dividend is to be paid) and the Scheme Record Date.

d. Funding of the Special Dividend

Based on the number of Coal & Allied Shares on issue as at the date of this Scheme Booklet and assuming that Coal & Allied pays a Special Dividend of \$8.00 per Coal & Allied Share, being the maximum amount that Coal & Allied is permitted to pay under the terms of Scheme Implementation Agreement, the maximum aggregate amount of cash that could be required to fund the payment of any Special Dividend is \$692,677,880 (**Maximum Special Dividend Amount**).

The funds necessary to pay a Special Dividend of an aggregate amount that is equal to the Maximum Special Dividend Amount are to be made available to Coal & Allied under the Special Dividend Loan.

The aggregate cash amount that is to be made available to Coal & Allied under the Special Dividend Loan is equal to the Maximum Special Dividend Amount.

e. Financial assistance

Section 260A of the Corporations Act allows a company to financially assist a person to acquire shares in the company, only in the circumstances stated in paragraphs (a), (b) or (c) of section 260A(1). Those circumstances are:

- if giving the assistance does not materially prejudice:
 - the interests of the company or its shareholders; or
 - the company's ability to pay its creditors;
- the assistance is approved by the company's shareholders in accordance with section 260B of the Corporations Act; or
- the assistance falls within one of the exemptions set out in section 260C of the Corporations Act (none of which apply in these circumstances).

The Corporations Act expressly provides that financial assistance may take the form of paying a dividend and may be given before or after the acquisition of shares. It may be given directly or indirectly.

While Hunter Valley Resources is not a Coal & Allied Shareholder and so did not receive the Interim Dividend and is not expected to receive any Special Dividend, its owners, ACH and Mitsubishi Development, were paid the Interim Dividend and will be paid any Special Dividend. It is possible that these dividends (to the extent paid) may be applied by ACH and Mitsubishi Development to fund Hunter Valley Resources' proposed acquisition of the Scheme Shares.

Coal & Allied does not consider that the payment of the Interim Dividend and any Special Dividend will materially prejudice the interests of Coal & Allied or its shareholders or its ability to pay its creditors. The Coal & Allied Directors have formed this view after carefully considering the financial position of Coal & Allied, including the financing arrangements that have been put in place to fund the payment of any Special Dividend.

6.3 Suspension of trading of Coal & Allied Shares

If the Court approves the Scheme, Coal & Allied will immediately notify ASX. It is expected that suspension of trading on the ASX in Coal & Allied Shares will occur at the close of trading on ASX on the Effective Date.

6.4 Removal of Coal & Allied from the official list

If the Court approves the Scheme and the Scheme is implemented, Coal & Allied will apply to ASX for Coal & Allied to be removed from ASX's official list after the Implementation Date.

6.5 No relevant restrictions in the Constitution of Coal & Allied

There are no relevant restrictions on the right to transfer Coal & Allied Shares in Coal & Allied's Constitution.

6.6 Warranty by Coal & Allied Shareholders about Coal & Allied Shares

The effect of clause 8.4 of the Scheme is that all Coal & Allied Shareholders who participate in the Scheme, including those who vote against the Scheme and those who did not vote, will be deemed to have warranted to Hunter Valley Resources that their Coal & Allied Shares are fully paid and not subject to any encumbrances specified in that clause.

In addition to this, clause 8.5 of the Scheme provides that, to the extent permitted by law, all Coal & Allied Shares that are transferred to Hunter Valley Resources under the Scheme will vest in Hunter Valley Resources free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind.

The Scheme is set out in full in Attachment B of this Scheme Booklet.

6.7 Payment instructions

The effect of clause 6.1(b) of the Scheme is that if a Scheme Participant has given the Coal & Allied Registry a valid instruction for the payment of dividends by Coal & Allied into a nominated bank account of that Scheme Participant, which has not been withdrawn as at the Scheme Record Date, then the Scheme Consideration to which that Scheme Participant is entitled to receive under the Scheme will be paid into that nominated bank account. Otherwise, a Scheme Participant will be paid the Scheme Consideration by cheque. The Special Dividend will be paid in the same way to Coal & Allied Shareholders who are entitled to receive it.

To update your direct credit instructions online with the Coal & Allied Registry please visit www.investorcentre.com.

6.8 Coal & Allied Shares held by or on behalf of Coal & Allied Directors as at the date of this Scheme Booklet

No Coal & Allied Shares are held by or on behalf of any of the Coal & Allied Directors as at the date of this Scheme Booklet.

6.9 Marketable securities of Hunter Valley Resources, the Rio Tinto Group and the Mitsubishi Development Group held by or on behalf of Coal & Allied Directors

As at the date of this Scheme Booklet, no Hunter Valley Resources securities are held by or on behalf of any Coal & Allied Director.

As at the date of this Scheme Booklet, the Coal & Allied Directors have the following interests in securities of the Rio Tinto Group:

Director	Interests in Rio Tinto
Christopher Renwick	Indirect interest in 10,350 ordinary shares in Rio Tinto
William Champion	Nil
Annabelle Chaplain	Indirect interest in 2,801 ordinary shares in Rio Tinto
Bryan Davis	Indirect interest in 1,764 ordinary shares in Rio Tinto
Douglas Ritchie	Direct interest in 27,891 ordinary shares in Rio Tinto Direct interest in 101,300 options granted under the Rio Tinto Limited Share Option Plan 2004 and Share Savings Plan Direct interest in 99,143 Conditional Share Awards granted under the Rio Tinto Limited Performance Share Plan 2004, Management Share Plan and Bonus Deferral Plan
Kaoru Yamanaka	Nil
Geoffrey Oldroyd (Alternate director)	Indirect interest in 3,534 ordinary shares in Rio Tinto
Matthew Coulter (Alternate director)	Direct interest in 908 ordinary shares in Rio Tinto Direct interest in 11,268 options granted under the Rio Tinto Limited Share Option Plan, Share Option 2004 and Share Savings Plan Direct interest in 13,235 Conditional Share Awards granted under the Rio Tinto Limited Performance Share Plan 2004, Management Share Plan 2007 and Bonus Deferral Plan

As at the date of this Scheme Booklet, no Mitsubishi Development Group securities are held by or on behalf of any Coal & Allied Director, other than the 1598.75 Mitsubishi Corporation shares of which Kaoru Yamanaka is the holder.

6.10 Payments and benefits to directors, secretaries or executive officers of the Coal & Allied Group

No payment or other benefit is proposed to be made or given to a director, secretary or executive officer of Coal & Allied or any member of the Coal & Allied Group as compensation for loss of, or as consideration for or in connection with their retirement from, office in Coal & Allied or any member of the Coal & Allied Group as a result of the Scheme.

6.11 Agreements and arrangements entered into by Coal & Allied Directors

There is no agreement or arrangement made between any Coal & Allied Director and any other person, including Hunter Valley Resources, Rio Tinto or Mitsubishi Development, in connection with, or conditional upon, the outcome of the Scheme.

6.12 Interests of Coal & Allied Directors in contracts of Hunter Valley Resources, the Rio Tinto Group or the Mitsubishi Development Group

Apart from Douglas Ritchie's and Matthew Coulter's employment contracts with the Rio Tinto Group, Kaoru Yamanaka's employment contract with the Mitsubishi Development Group and alternate director Geoffrey Oldroyd's consultancy contract with Mitsubishi Development, no Coal & Allied Director has any interest in any contract entered into by Hunter Valley Resources, a member of the Rio Tinto Group or a member of the Mitsubishi Development Group, other than the interests set out elsewhere in this Scheme Booklet.

6.13 Interests of Hunter Valley Resources and its associates in Coal & Allied Shares

As at the date of this Scheme Booklet, Hunter Valley Resources does not directly hold any Coal & Allied Shares. As at the date of this Scheme Booklet and outlined below in this Section 6.13, Hunter Valley Resources has advised that it has Voting Power in the Coal & Allied Shares held by its shareholders, Rio Tinto Coal NSW (through its Related Body Corporate, ACH) and Mitsubishi Development.

The interests of Rio Tinto and Mitsubishi Development in Coal & Allied Shares immediately prior to 7 August 2011 are set out in the table below:

	Number of Coal & Allied Shares	Percentage of all Coal & Allied Shares on issue
Rio Tinto (through its wholly owned Subsidiary ACH)	65,555,831	75.71%
Mitsubishi Development	8,829,288	10.20%
	Number of Coal & Allied Shares	Percentage of all Coal & Allied Shares on issue
Combined holdings of Rio Tinto, Mitsubishi Development and Hunter Valley Resources	74,385,119	85.91%

Coal & Allied has relied on substantial holder notices provided to it up to the date of this Scheme Booklet, which are available on the ASX Website, to compile the above tables. Information in regard to substantial holdings arising, changing or ceasing after the date of this Scheme Booklet or in respect of which the relevant announcement is not available on the ASX Website is not included above.

6.14 ASIC modifications and waivers

ASIC has granted Coal & Allied the exemptions, modifications and consents described below:

- a. Regulation 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations requires this Scheme Booklet to disclose particulars of any payment or benefit that is proposed to be made or given to any director, secretary or executive officer of Coal & Allied or a related body corporate of Coal & Allied as compensation for loss of office, or as consideration for or in connection with their retirement from office.

ASIC has allowed Coal & Allied to depart from certain requirements of Regulation 8302(d) of Part 3 of Schedule 8 to the Corporations Regulations. The effect of this relief is that this Scheme Booklet:

- i. is not required to state particulars of payments or benefits which may be made to a director, secretary or executive officer of Coal & Allied Group in relation to their loss of office or retirement from office, unless the relevant person will lose office or retire from office as a consequence of, or in connection with, the Scheme or the amount of any payment or benefit which may be made to the relevant person upon their loss of office or retirement from office may be materially affected by the Scheme;
 - ii. is not required to disclose the identity of any director, executive officer or secretary of Coal & Allied Group who will lose office or retire from office in connection with the Scheme except where that person is a Coal & Allied Director; and
 - iii. may describe payments or benefits to any director, executive officer or secretary of Coal & Allied Group who will lose office or retire from office in connection with the Scheme on an aggregate rather than an individual basis and the explanatory statement discloses the number of persons who will receive a payment or benefit and which falls within each successive \$10,000 band commencing at nil, where the number of persons is no less than one.
- b. Regulation 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires this Scheme Booklet to disclose whether, to the knowledge of the Coal & Allied Directors, the financial position of Coal & Allied has materially changed since the date of the last balance sheet sent to Coal & Allied Shareholders and particulars of that change.

ASIC has allowed Coal & Allied to depart from this obligation on the basis that:

- i. Coal & Allied has complied with Division 2 of Part 2M.3 of the Corporations Act in respect of the half year ended 30 June 2011;

- ii. Coal & Allied will provide, free of charge, a copy of the half year financial report of Coal & Allied and its controlled entities for the six month period to 30 June 2011 and the full year financial report for the period ending 31 December 2010 to anyone who requests a copy before the Scheme is approved by order of the Court;
 - iii. any material change in the financial position of Coal & Allied since the date of the financial report of Coal & Allied and its controlled entities for the six month period to 30 June 2011 is disclosed in this Scheme Booklet and/or in announcements to ASX; and
 - iv. Coal & Allied will disclose any material change in Coal & Allied's financial position that occurs after the date of this Scheme Booklet but prior to the Second Court Date in announcements to ASX.
- c. Regulation 8310 of Part 3 of Schedule 8 of the Corporations Regulations requires this Scheme Booklet to set out particulars of the intentions of the Coal & Allied Directors regarding:
- i. any major changes to be made to Coal & Allied's business, including any redeployment of Coal & Allied's fixed assets; and
 - ii. the future employment of Coal & Allied's present employees.

ASIC has allowed Coal & Allied to depart from this requirement on the condition that this Scheme Booklet is substantially in the final form provided to ASIC before the first Court hearing.

6.15 ASX waiver

Listing Rule 7.14 provides that an entity must not have a record date for any purpose until at least six Business Days after its last record date. ASX has granted Coal & Allied a waiver from Listing Rule 7.14 to permit the Special Dividend Record Date to be within six Business Days of the Scheme Record Date.

6.16 Consents

- a. The following parties have given, and have not withdrawn before the date of this Scheme Booklet, their consent to be named in this Scheme Booklet in the form and context in which they are named:
 - i. Greenhill Caliburn Pty Limited as financial advisor to Coal & Allied;
 - ii. Computershare Investor Services Pty Ltd as the Coal & Allied Registry; and
 - iii. Gilbert + Tobin as legal advisor to Coal & Allied in relation to the Scheme.
- b. The Independent Expert has consented to the inclusion of the Independent Expert's Report in Attachment A to this Scheme Booklet and the Independent Expert and the Technical Specialist have consented to the references to the Independent Expert's Report and Technical Specialist's Report, respectively, in this Scheme Booklet being made in the form and context in which each such reference is included.
- c. PricewaterhouseCoopers has consented to the inclusion of the Independent Taxation Report in Section 5 and to the references to PricewaterhouseCoopers in this Scheme Booklet being made in the form and context in which each such reference is included.
- d. Hunter Valley Resources has given and not withdrawn its consent in relation to the inclusion of the Hunter Valley Resources Information in this Scheme Booklet in the form and context in which that information is included.
- e. Each person named in this Section 6.16:
 - i. has not authorised or caused the issue of this Scheme Booklet;
 - ii. does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than as specified in this Section 6.16; and
 - iii. to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet, other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of the party as specified in this Section 6.16.

6.17 Competent person's statement

Estimates of coal reserves disclosed in this Scheme Booklet have been produced in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, December 2004 (**JORC Code**). The JORC Code requires that coal reserves are underpinned by either a reasonable or high level of confidence in the deposit knowledge, are technically feasible to mine and process, are economic to mine using reasonable projected long term commodity prices and that licences allowing extraction have been or can be obtained.

The information in this Scheme Booklet that relates to coal reserves is based on information compiled by Jonathon Buddee who is a full time employee of RTCA. Mr Buddee is a member of the Australasian Institute of Mining and Metallurgy. He has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a competent person as defined in the JORC Code.

Jonathon Buddee consents to the inclusion in this Scheme Booklet of the matters based on his information in the form and context in which they appear.

6.18 Continuous disclosure

Coal & Allied is subject to regular reporting and disclosure obligations under the Corporations Act and Listing Rules. Coal & Allied has an obligation (subject to limited exceptions) to notify ASX immediately upon becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Coal & Allied Shares. Copies of documents filed with ASX may be obtained from the ASX Website.

In addition, Coal & Allied is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation to Coal & Allied may be obtained from, or inspected at, an ASIC office.

6.19 Supplementary information

If between the date of lodgement of this Scheme Booklet for registration with ASIC and the Second Court Date Coal & Allied becomes aware of any of the following:

- a material statement in this Scheme Booklet that is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet; or
- a significant new matter that has arisen and it would have been required to be included in this Scheme Booklet if known about at the date of lodgement with ASIC,

then Coal & Allied intends to publish supplementary material by:

- a. placing an advertisement in a prominently placed newspaper which is circulated throughout Australia; or
- b. posting the supplementary material on the Coal & Allied Website and lodging the material with ASX,

and, depending on the nature and timing of the changed circumstances and the supplementary material, Coal & Allied may also post the supplementary material to all Coal & Allied Shareholders, subject to obtaining any necessary regulatory approvals.

6.20 Other material information

Otherwise than as contained or referred to in this Scheme Booklet, including in the Independent Expert's Report and Technical Specialist's Report and the information that is contained in the Attachments to this Scheme Booklet, there is no other information that is material to the making of a decision by the Coal & Allied Shareholder whether or not to vote in favour of either or both of the Resolutions, being information that is known to any Coal & Allied Director and which has not been previously disclosed to Coal & Allied Shareholders.

Coal & Allied is not aware of any material information about Coal & Allied that is material to a decision of a Coal & Allied Shareholder on how to vote in relation to either or both of the Section 611 Item 7 Resolution and the Scheme Resolution and which:

- i. has not been made available to the Independent Expert or the Technical Specialist, as the context requires, for the purpose of preparing the Independent Expert's Report and Technical Specialist's Report, respectively;
- ii. is not set out in this Scheme Booklet; or
- iii. has not otherwise been made publicly available by Coal & Allied.

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SECTION 7

Glossary

7. Glossary

In this Scheme Booklet, words have the following meanings, unless the context requires otherwise.

2010 Annual Report	means Coal & Allied's annual report for the year end to 31 December 2010 and announced to ASX on 14 March 2011.
2011 Annual General Meeting	means Coal & Allied's annual general meeting held on 15 April 2011.
ACH	means Australian Coal Holdings Pty Limited ACN 000 066 491, a wholly owned subsidiary of Rio Tinto Limited.
ACH Shares	means the 65,555,831 Coal & Allied Shares that are held by ACH at the date of the Scheme Booklet.
AMC	means AMC Consultants Pty Ltd ACN 008 129 164.
ASIC	means the Australian Securities & Investments Commission.
Associate	has the meaning given in the Corporations Act.
ASX	means ASX Limited ACN 008 624 691 or, where the context requires, the financial market operated by it on which Coal & Allied Shares are quoted.
ASX Website	means www.asx.com.au .
Attachment	means an attachment to this Scheme Booklet.
ATO	means the Australian Taxation Office.
Business Day	means a day on which banks are open for business excluding Saturdays, Sundays and public holidays in Melbourne, Victoria, in Sydney, New South Wales or in Tokyo, Japan.
CGT	means capital gains tax.
Chairman	means the chair of the Proposal Response Committee, the chair of the Coal & Allied Board, the chair of the General Meeting or the chair of the Scheme Meeting as the context requires.
CHESS	means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited ACN 008 504 532.
Coal & Allied	means Coal & Allied Industries Limited ACN 008 416 760.
Coal & Allied Board	means the Coal & Allied Directors acting together as a board of Coal & Allied.
Coal & Allied Director	means a director of Coal & Allied.
Coal & Allied Group	means Coal & Allied and each of its Subsidiaries and Coal & Allied Group Member means Coal & Allied or one of its subsidiaries.
Coal & Allied Independent Directors Committee	means the committee of Coal & Allied Directors comprising Bryan Davis and Annabelle Chaplain as stated in Section 2.1(b) of this Scheme Booklet.
Coal & Allied Information	means all information included in this Scheme Booklet and any updates to that information prepared by or on behalf of Coal & Allied, other than the information in Section 5 and the Hunter Valley Resources Information (and any information solely derived from, or prepared solely in reliance on, any such information), and does not include the Independent Expert's Report or the Technical Specialist's Report (or any information solely derived from, or prepared solely in reliance on, information in either of those reports).
Coal & Allied Register	means the register of members of Coal & Allied from time to time.
Coal & Allied Registry	means Computershare Investor Services Pty Limited ACN 078 279 277.
Coal & Allied Share	means a fully paid ordinary share in the capital of Coal & Allied.
Coal & Allied Shareholder	means a person shown in the Coal & Allied Register as holding one or more Coal & Allied Shares.
Coal & Allied Website	means www.coalandallied.com.au .

Competing Proposal	means any expression of interest, proposal, offer or transaction by a person other than ACH, Mitsubishi Development or Hunter Valley Resources or any of their respective Related Bodies Corporate (each a Third Party) that, if completed, would result in: a. a Third Party holding a relevant interest in 50% or more of Coal & Allied Shares or of the securities of any member of the Coal & Allied Group; b. a Third Party directly or indirectly acquiring or obtaining an interest (including an economic interest) in all or a substantial part or material part of the business conducted by, or assets or property of, Coal & Allied; c. a Third Party acquiring Control of Coal & Allied or any member of the Coal & Allied Group; or d. a Third Party otherwise acquiring, or merging with, Coal & Allied (including by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale of securities, strategic alliance, dual listed company structure, joint venture or partnership).
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	means the <i>Corporations Regulations 2001</i> (Cth).
Court	means the Federal Court of Australia.
Court Order	means the order of the Court approving the Scheme under section 411(4)(b) of the Corporations Act which is to be lodged with ASIC to make the Scheme Effective.
Deed Poll	means the deed poll executed by Hunter Valley Resources and dated 19 October 2011, a copy of which is included at Attachment C.
Effective	means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.
Effective Date	means the date on which the Scheme becomes Effective.
Escrow Account	has the meaning given in Section 4.4(b).
Excluded Shareholder	means ACH, Mitsubishi Development, Hunter Valley Resources and any Related Body Corporate of any of those companies which holds Coal & Allied Shares.
FIRB	means Foreign Investment Review Board.
Framework Agreement	means the agreement of that name which was entered into between ACH, Mitsubishi Development and Hunter Valley Resources and announced to ASX on 26 August 2011.
General Meeting	means the meeting of Coal & Allied Shareholders at which the Section 611 Item 7 Resolution will be voted on and any adjournment of that meeting.
General Proxy Form	means the proxy form for the General Meeting enclosed with this Scheme Booklet.
Hunter Valley Resources	means Hunter Valley Resources Pty Ltd ACN 151 471 242 which is jointly owned by the Rio Tinto Coal NSW and Mitsubishi Development.
Hunter Valley Resources Board	means the board of directors of Hunter Valley Resources from time to time.
Hunter Valley Resources Information	means all information regarding Hunter Valley Resources, the Rio Tinto group and the Mitsubishi Development Group provided by or on behalf of Hunter Valley Resources for inclusion in this Scheme Booklet (and any information solely derived from, or prepared solely in reliance on, such information), and any updates to that information prepared by or on behalf of Hunter Valley Resources, and includes all of the information contained in Section 4.
HVO	has the meaning given to it in Section 3.2(a).
Implementation Date	means the third Business Day after the Scheme Record Date, or such other date as Coal & Allied and Hunter Valley Resources may agree in writing.
Independent Expert	means Lonergan Edwards.
Independent Expert's Report	means the report by the Independent Expert dated 21 October 2011, a concise copy of which is included at Attachment A.

Indicative Proposal	means the incomplete, non-binding, conditional and indicative proposal received by Coal & Allied on 6 August 2011 from Rio Tinto which could lead to a takeover being made to acquire all the outstanding shares in Coal & Allied not held by Rio Tinto and Mitsubishi.
Interim Dividend	means the dividend of \$1.20 announced by Coal & Allied in its ASX Interim Report on 27 July 2011.
Joint Bidding Arrangements	means those aspects of the Framework Agreement and the Shareholders Agreement which would result in ACH, Mitsubishi Development and Hunter Valley Resources acquiring a Relevant Interest in each other's Coal & Allied Shares.
JORC Code	has the meaning given in Section 6.17.
Key Dates	means the dates set out on page 4 of this Scheme Booklet.
Listing Rules	means the official listing rules of ASX.
Lonergan Edwards	means Lonergan Edwards & Associates Limited ACN 095 445 560.
Management Services Agreement	means the agreement of that name which is contemplated to be entered into between Coal & Allied and Rio Tinto Coal Australia following the effective date under the Shareholders Agreement.
Maximum Special Dividend Amount	means the maximum aggregate amount of cash that could be required to fund the payment of any Special Dividend.
Meeting	means the Scheme Meeting or the General Meeting and Meetings means, collectively, the Scheme Meeting and General Meeting.
Mitsubishi Development	means Mitsubishi Development Pty Ltd ACN 009 779 873.
Mitsubishi Development Group	means Mitsubishi Development and its Related Bodies Corporate.
Mitsubishi Development Shares	means the 8,829,288 Coal & Allied Shares held by Mitsubishi Development at the date of the Scheme Booklet.
MSA	means the management services agreement between Coal & Allied and Rio Tinto Coal Australia dated 16 December 2003.
MRRT	has the meaning given to it in Section 3.7(a)(xi).
MTW	has the meaning given to it in Section 3.2(b).
Notice of General Meeting	means the notice in relation to the General Meeting, as set out at Attachment D.
Notice of Scheme Meeting	means the notice in relation to the Scheme Meeting, as set out at Attachment E.
NPAT	means net profit after tax.
POSCO	means Pohang Iron and Steel Company or POSCO, a company incorporated in the Republic of Korea and listed on the New York Stock Exchange, London Stock Exchange, Tokyo Stock Exchange and Korea Exchange.

Prescribed Event	means any of the following events occur: - other than the declaration and/or payment of a Special Dividend, Coal & Allied declares any dividend or pays, makes or incurs and liability to pay or make any distribution whether by way of dividend, capital return, bonus or other share of its profits or assets; - Coal & Allied converts all or any of its shares into a larger or smaller number of shares under section 254H of the Corporations Act; - Coal & Allied or a Subsidiary of Coal & Allied resolves to reduce its share capital in any way; - Coal & Allied or a Subsidiary of Coal & Allied enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act; - Coal & Allied or a Subsidiary of Coal & Allied issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option; - Coal & Allied or a Subsidiary of Coal & Allied issues, or agrees to issue, convertible notes; - Coal & Allied or a Subsidiary of Coal & Allied disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property; - Coal & Allied or a Subsidiary of Coal & Allied charges, or agrees to charge, the whole, or a substantial part, of its business or property; - Coal & Allied or a Subsidiary of Coal & Allied resolves to be wound up; - a liquidator or provisional liquidator of Coal & Allied or of a Subsidiary of Coal & Allied is appointed; - a court makes an order for the winding up of Coal & Allied or of a Subsidiary of Coal & Allied; - an administrator of Coal & Allied or of a Subsidiary of Coal & Allied is appointed under section 436A, 436B or 436C of the Corporations Act; - Coal & Allied or a Subsidiary of Coal & Allied executes a deed of company arrangement; or - a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Coal & Allied or a Subsidiary of Coal & Allied.
PricewaterhouseCoopers	means PricewaterhouseCoopers ABN 52 780 433 757.
Proposal Response Committee or PRC	means a committee of Coal & Allied Directors comprising Bryan Davis (Chair), Christopher Renwick and Annabelle Chaplain.
Proxy Form	means, as the context requires, the Scheme Proxy Form or the General Proxy Form, and Proxy Forms means both of them.
Public Authority	means any government or any governmental, semi-governmental, statutory or judicial entity or authority, or any minister, department, office or delegate of any government, whether in Australia or elsewhere. It also includes any self-regulatory organisation established under statute and any stock exchange.
Recommending Directors	means Bryan Davis, Christopher Renwick and Annabelle Chaplain, each a Coal & Allied Director.
Related Body Corporate	means: - with respect to ACH, any entity which is a related body corporate of ACH within the meaning of section 50 of the Corporations Act, other than Coal & Allied, Hunter Valley Resources and their respective Subsidiaries; and - with respect to Mitsubishi Development, any entity which is a related body corporate of Mitsubishi Development within the meaning given in section 50 of the Corporations Act, other than Coal & Allied, Hunter Valley Resources and their respective Subsidiaries; - with respect to Hunter Valley Resources, any entity which is a related body corporate of Hunter Valley Resources within the meaning of section 50 of the Corporations Act, other than Coal & Allied and its Subsidiaries; and - with respect to Coal & Allied, any entity which is a related body corporate of Coal & Allied within the meaning of section 50 of the Corporations Act, other than Hunter Valley Resources and any Related Body Corporate of Hunter Valley Resources (as defined in paragraph (c)).
Relevant Interest	has the meaning given in the Corporations Act.
Resolutions	means collectively the Section 611 Item 7 Resolution and the Scheme Resolution.

Rio Tinto	means Rio Tinto Limited ACN 004 458 404.
Rio Tinto Coal Australia	means Rio Tinto Coal Australia Pty Limited ACN 010 542 140.
Rio Tinto Coal NSW	means Rio Tinto Coal NSW Holdings Limited ACN 139 182 844.
Rio Tinto Energy	means the Rio Tinto Group business unit that is involved in the extraction of energy related resources.
Rio Tinto Finance	means Rio Tinto Finance Limited ACN 008 559 046.
Rio Tinto Group	means ACH and its Related Bodies Corporate.
Rio Tinto plc	means Rio Tinto plc, a company incorporated in England and Wales with company number 719885.
Rio Tinto Services Inc	means Rio Tinto Services Inc, a company incorporated in the state of Delaware, United States of America.
Scheme	means the proposed scheme of arrangement under section 411 of the Corporations Act between Coal & Allied and the Scheme Participants, the form of which is set out at Attachment B, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and consented to by Coal & Allied and approved in writing by Hunter Valley Resources.
Scheme Announcement Date	means 26 August 2011 being the day on which the Scheme Implementation Agreement was executed and announced to ASX.
Scheme Booklet	means this document including each Attachment.
Scheme Conditions	means the conditions that the Scheme is subject to, are set out in clause 3.2 of the Scheme Implementation Agreement and are summarised in Section 1.4.
Scheme Consideration	means \$125.00 for each Coal & Allied Share held as at the Scheme Record Date less the cash amount of any Special Dividend that Coal & Allied has determined and announced that it will pay by not later than the date that is five Business Days after the Implementation Date, being the last date for payment of the Scheme Consideration to Scheme Participants in accordance with clause 6 of the Scheme.
Scheme Implementation Agreement	means the scheme implementation agreement entered into by Coal & Allied and Hunter Valley Resources on 26 August 2011.
Scheme Meeting	means the meeting of Coal & Allied Shareholders (other than Excluded Shareholders) at which the Scheme Resolution will be voted on, convened pursuant to orders of the Court made on 21 October 2011, and includes any adjournment of that meeting.
Scheme Participant	means a Coal & Allied Shareholder as at the Scheme Record Date that is not an Excluded Shareholder.
Scheme Proxy Form	means the proxy form for the Scheme Meeting enclosed with this Scheme Booklet.
Scheme Record Date	means 7.00pm on the seventh Business Day after the Effective Date, or such other date (after the Effective Date) as Coal & Allied and Hunter Valley Resources may agree in writing.
Scheme Resolution	means the resolution in relation to the Scheme to be voted on at the Scheme Meeting, as set out in the Notice of Scheme Meeting.
Scheme Shares	means a Coal & Allied Share held by a Scheme Participant.
Second Court Date	means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard.
Section	means a section of this Scheme Booklet.
Section 611 Item 7 Resolution	means the resolution in relation to the approval by Coal & Allied Shareholders of the Joint Bidding Arrangements to be voted on at the General Meeting, as set out in the Notice of General Meeting.
Shareholders Agreement	means the agreement of that name which was entered into between ACH, Mitsubishi Development and Hunter Valley Resources and announced to ASX on 26 August 2011.

Special Dividend	means a fully franked dividend of up to \$8.00 on Coal & Allied Shares, that satisfies the conditions set out in the definition of Special Dividend in the Scheme, to be announced by Coal & Allied after the Meetings if each of the Resolutions are approved.
Special Dividend Announcement Date	means 28 November 2011 being the day of the Meetings but only after the Meetings are held.
Special Dividend Loan	means the loan agreement to be entered into between ACH, Mitsubishi Development, Hunter Valley Resources and Coal & Allied on or around the date of this Scheme Booklet for the purposes of providing Coal & Allied with necessary funds for payment of the Special Dividend.
Special Dividend Record Date	means 7.00pm on the fifth Business Day after the Effective Date.
Subsidiary	means a subsidiary as defined under section 9 of the Corporations Act.
Subscription Arrangements	mean the arrangements under the Framework Agreement pursuant to which ACH and Mitsubishi Development (or their Related Bodies Corporate) will subscribe for, and Hunter Valley Resources will issue, shares in Hunter Valley Resources, as described in Sections 4.4(b)(i) and 4.5(a)(vi).
Superior Proposal	means a bona fide publicly announced Competing Proposal that is received by Coal & Allied and which the PRC, acting in good faith after taking advice from their advisers, determines: - is reasonably capable of being completed on a timely basis; and - if completed substantially in accordance with its terms, would be more favourable to Coal & Allied Shareholders than the Scheme, in each case, after taking into account all aspects of the Competing Proposal (including its terms and conditions) and the identity of the person making it.
Tax Ruling	means the tax ruling by the ATO on the Special Dividend.
Tax Ruling Condition	has the meaning given to it in Section 6.2(a) of this Scheme Booklet.
Technical Specialist	means AMC.
Technical Specialist's Report	means the report by the Technical Specialist dated 19 October 2011, which forms a part of the full version of the Independent Expert's Report.
Total Scheme Consideration	has the meaning given in Section 4.4(a).
Voting Power	has the meaning given in the Corporations Act.
VWAP	means volume weighted average price.

ATTACHMENT A

Concise version of Independent Expert's Report

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Attachment A. Concise version of Independent Expert's Report

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The Directors
Coal & Allied Industries Limited
123 Albert Street
Brisbane Qld 4000

21 October 2011

Subject: Proposed acquisition by way of Scheme – Concise Report

Dear Directors

Introduction

- 1 On 8 August 2011 Coal & Allied Industries Limited (Coal & Allied) announced that on 6 August 2011 it had received an incomplete, non-binding, conditional and indicative proposal from Rio Tinto Limited (Rio Tinto) which could lead to a takeover offer being made to acquire all the outstanding shares in Coal & Allied not held by Rio Tinto and Mitsubishi Development Pty Ltd (Mitsubishi Development). The indicative proposal contemplated an offer of A\$122.00 cash for each Coal & Allied share not owned by either Rio Tinto or Mitsubishi Development.
- 2 Subsequently, on 26 August 2011 Coal & Allied announced that it had executed a Scheme Implementation Agreement (the Agreement) with Rio Tinto and Mitsubishi Development¹, under which it is proposed that Coal & Allied shareholders other than Rio Tinto and Mitsubishi Development² will have their shares acquired by Hunter Valley Resources Pty Ltd (Hunter Valley Resources) by way of a Scheme of Arrangement (the Scheme). The Scheme is subject to a number of conditions precedent, as summarised in Section I of our report.
- 3 If the Scheme is approved and implemented, Coal & Allied shareholders will receive A\$125.00 cash for each Coal & Allied share they hold on the Scheme Record Date³, less the cash amount of any Special Dividend which Coal & Allied announces before the Scheme Record Date.
- 4 Under the Agreement, Coal & Allied intends to pay a fully franked Special Dividend of up to A\$8.00 per Coal & Allied share, subject to the necessary approvals for the Scheme being obtained and Coal & Allied obtaining a ruling from the ATO. Should a Special Dividend of A\$8.00 per Coal & Allied share be paid the cash consideration payable under the Scheme will be reduced to A\$117.00 per share.

¹ The Agreement has been entered into between Coal & Allied and Hunter Valley Resources Pty Ltd, an entity jointly owned by Rio Tinto and Mitsubishi Development.

² For ease of reporting we have referred to "Coal & Allied shareholders other than Rio Tinto and Mitsubishi Development" as "Coal & Allied shareholders" in the remainder of our report.

³ The Scheme Record Date is presently expected to be 7:00pm on the seventh business day after the Scheme becomes effective.



- 5 Coal & Allied shareholders will therefore receive a total of A\$125.00 cash per share if the Scheme is implemented regardless of whether a Special Dividend is paid. The proposed transaction values all the shares in Coal & Allied (on a fully diluted basis) at approximately A\$10.8 billion.
- 6 The Scheme is subject to (among other things) the Court convening a meeting of Coal & Allied shareholders. Under the *Corporations Act 2001 (Cth)* (Corporations Act), the Scheme is approved by Coal & Allied shareholders if a resolution in favour of the Scheme is passed by a majority in number of the Coal & Allied shareholders present and voting at the Scheme meeting (in person or by proxy), and by 75% of the votes cast on the resolution⁴. If this occurs a second Court hearing will be held to approve the Scheme, which if approved, will become binding on all Coal & Allied shareholders who hold Coal & Allied shares as at the Scheme Record Date, irrespective of whether or not they voted for the Scheme.

Key transaction participants

Coal & Allied

- 7 Coal & Allied is a major coal producer in the Hunter Valley region of New South Wales (NSW). The company employs more than 3,200 people across its three existing mine operations, Hunter Valley Operations (HVO), Mount Thorley Warkworth (MTW) and Bengalla. Current projects include Mount Pleasant in respect of which a full feasibility study is underway. Coal & Allied is managed by Rio Tinto Coal Australia Pty Limited (RTCA), a wholly owned subsidiary of Rio Tinto.

Rio Tinto

- 8 Rio Tinto is a leading international mining group, combining Rio Tinto Plc, a London listed public company headquartered in the United Kingdom (UK), and Rio Tinto Limited, which is listed on the Australian Securities Exchange (ASX), with executive offices in Melbourne. Rio Tinto's interests are diverse both in geography and product. The majority of the group's assets are in Australia and North America, with operations also situated in Europe, South America, Asia and Africa. Operating businesses include open pit and underground mines, mills, refineries and smelters, as well as a number of research and service facilities. Rio Tinto currently owns 75.7% of Coal & Allied shares.

Mitsubishi Development

- 9 Mitsubishi Development is a wholly owned subsidiary of the Japanese trading and investment company, Mitsubishi Corporation. With offices in Sydney, Perth and Brisbane, Mitsubishi Development is engaged in resource equity management with a focus on iron ore, metallurgical coal, thermal coal and uranium investments in Australia. Mitsubishi Corporation is engaged in a broad range of businesses through its trading activities and investments, which business areas include energy, metals, machinery, chemicals, food, general merchandise, automotive tooling, equipment and materials and business development. Mitsubishi Development currently owns 10.2% of Coal & Allied shares.

⁴ Neither Rio Tinto or Mitsubishi Development can vote on any of the resolutions to implement the Scheme.

Purpose of report

- 10 As Rio Tinto and Mitsubishi Development collectively hold 74.4 million shares in Coal & Allied (representing 85.9% of the ordinary shares on issue) and together have three directors on the Coal & Allied Board, there is a regulatory requirement for an independent expert's report (IER) to be prepared for Coal & Allied shareholders pursuant to s411 of the Corporations Act, and Regulation 5.1.01 and Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Corporations Regulations).
- 11 In addition, the Recommending Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of Coal & Allied shareholders (and there being no superior proposal).
- 12 Accordingly, the Proposal Response Committee⁵ have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) and the reasons for that opinion.
- 13 LEA is independent of Coal & Allied, Rio Tinto and Mitsubishi Development and has no other involvement or interest in the proposed Scheme.

Summary of opinion

- 14 In our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal. We have formed this opinion for the following reasons.

Valuation of Coal & Allied

- 15 Given the finite life of mining operations and the expectation of increasing coal production over time we have selected the discounted cash flow (DCF) methodology as the primary methodology when valuing Coal & Allied.
- 16 Our assessed value of Coal & Allied shares on a 100% controlling interest basis is summarised below:

Coal & Allied – valuation of 100% controlling interest		
	Low A\$m	High A\$m
Value of coal mining interests ⁽¹⁾	9,300	10,700
Present value of corporate costs	(170)	(140)
Enterprise value	9,130	10,560
Investment in PWCS ⁽²⁾	280	320
Other assets (including net cash)	220	235
Value of equity	9,630	11,115
Shares on issue (m)	86.6	86.6
Value per share (A\$)	\$111.20	\$128.35

⁵ The Proposal Response Committee comprises three Directors of Coal & Allied and was formed to respond to the initial proposal from Rio Tinto and the Scheme.

**Note:**

- 1 Representing the value of Coal & Allied's interests in the HVO, MTW and Bengalla operating mines, the Mount Pleasant development project and the Oaklands project.
- 2 PWCS – Port Waratah Coal Services.

Sensitivity analysis

- 17 Details of the key assumptions adopted for valuation purposes are set out in Section I of this report.
- 18 The value of Coal & Allied shares is particularly sensitive to the coal price, foreign exchange rate and discount rate assumptions selected. However, it should be noted that there is a strong correlation between the AUD:USD exchange rate and USD commodity prices. In the long-term it is therefore unlikely that high USD coal prices will occur at times of low AUD:USD exchange rates or that low USD coal prices will occur at times of high AUD:USD exchange rates. Accordingly, we believe it is more appropriate to show the sensitivity in value to movements in the coal price implied in AUD terms.
- 19 We have therefore applied the following sensitivities to our values:
 - (a) discount rates ranging +/- 0.25% and 0.5%
 - (b) coal prices +/- A\$2.50, A\$5 and A\$10 per tonne (inflation adjusted from 2017).
- 20 A summary of these sensitivities is set out below:

Sensitivity of Coal & Allied share value to coal prices and discount rates (A\$ value per share)					
Discount rate	-0.50%	-0.25%	Base rates	+0.25%	+0.50%
	A\$	A\$	A\$	A\$	A\$
Coal pricing scenarios:					
Plus A\$10 per tonne	153.83	150.10	146.51	143.06	139.74
Plus A\$5 per tonne	140.00	136.58	133.30	130.14	127.10
Plus A\$2.50 per tonne	132.88	129.64	126.51	123.51	120.62
Mid-point of A\$ coal prices adopted	125.74	122.66	119.78	116.84	114.10
Minus A\$2.50 per tonne	118.56	115.65	112.85	110.15	107.56
Minus A\$5 per tonne	111.37	108.63	105.98	103.44	101.00
Minus A\$10 per tonne	96.92	94.51	92.19	89.96	87.82

Note:

- 1 As set out in Section I of this report the mid-point base case long-term coal prices, foreign exchange rate and discount rates are as follows; semi-soft coking coal US\$130/t, thermal coal US\$104/t, AUD:USD exchange rate 0.84 and discount rates of 10.6% per annum for the HVO, MTW and Bengalla operating mines and 12.1% per annum for the Mount Pleasant development project.

- 21 Consistent with coal projects generally (where output is primarily for export purposes), the table above highlights that movements in the AUD coal price forecasts have the ability to significantly impact the value of Coal & Allied, both positively and negatively.

Evaluation of the Scheme

- 22 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of Coal & Allied			
	Low	High	Mid-point
	A\$ per share	A\$ per share	A\$ per share
Value of Scheme Consideration	125.00	125.00	125.00
Value of 100% of Coal & Allied per share	111.20	128.35	119.78
Extent to which the Scheme Consideration exceeds (or is less than) the value of Coal & Allied	13.80	(3.35)	5.22

- 23 As the Scheme Consideration lies within our assessed valuation range for Coal & Allied shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Coal & Allied shareholders when assessed based on the guidelines set out in RG 111.
- 24 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 25 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Coal & Allied shareholders in the absence of a superior proposal.

Summary of advantages and disadvantages

- 26 In assessing the Scheme we have also considered the likely advantages and disadvantages for Coal & Allied shareholders if the Scheme proceeds.

Advantages

- 27 In our opinion, the Scheme has the following benefits for Coal & Allied shareholders:
- (a) the Scheme Consideration of A\$125.00 cash per share is towards the high end of our assessed value range for Coal & Allied shares on a 100% controlling interest basis
 - (b) the Scheme Consideration represents a significant premium to the recent market prices of Coal & Allied shares prior to the announcement of the indicative proposal that was received from Rio Tinto on 6 August 2011
 - (c) furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances
 - (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Coal & Allied shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the indicative proposal from Rio Tinto was announced. Shareholders should note that the S&P/ASX 200 Resources Index has fallen 7.8% since the last trading day prior to Coal & Allied’s announcement that it had received an indicative proposal from Rio Tinto on 8 August 2011⁶.

⁶ The decline in the S&P/ASX 200 Resources Index is calculated from 5 August 2011 up to 21 October 2011.



- 28 Further, it should be noted that as Rio Tinto and Mitsubishi Development already own 85.9% of Coal & Allied shares there is no realistic likelihood that a competing offer for Coal & Allied shares will be received prior to the Scheme meeting.

Disadvantages

- 29 Coal & Allied shareholders should note that if the Scheme is implemented they will no longer hold an interest in Coal & Allied. Coal & Allied shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration.
- 30 However, as our assessed value of Coal & Allied shares is consistent with the Scheme Consideration, in our opinion, the present value of Coal & Allied's future potential is reflected in the Scheme Consideration.
- 31 Shareholders should also note that the value of Coal & Allied shares is particularly sensitive to long-term coal price assumptions in AUD terms. While our valuation reflects long-term coal prices which are consistent with average analyst forecasts at the low end, and higher than average analyst forecasts at the high end, those shareholders which have a more optimistic view on long-term coal prices may consider the Scheme Consideration to be inadequate⁷.

Conclusion

- 32 Given the above analysis, we consider the acquisition of Coal & Allied shares under the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal.
- 33 We note that Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) must pass two resolutions in order for the Scheme to proceed (referred to in the Notice of Meeting and Scheme Booklet as the Section 611 Item 7 Resolution and the Scheme Resolution). In our opinion the advantages of the Scheme outweigh the disadvantages and both resolutions are fair and reasonable for the reasons stated above.

General

- 34 In preparing this report we have considered the interests of Coal & Allied shareholders as a whole (other than Rio Tinto and Mitsubishi Development). Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 35 The impact of approving the Scheme on the tax position of Coal & Allied shareholders depends on the individual circumstances of each investor. Coal & Allied shareholders should read the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

⁷ We note however the impact of changes in the AUD:USD exchange rate and the importance of AUD coal prices rather than just USD coal prices and the (often significantly offsetting) increase in the value of the AUD at times of higher commodity prices.

- 36 The ultimate decision whether to approve the acquisition of shares by Hunter Valley Resources under the Scheme should be based on each Coal & Allied shareholder's assessment of their own circumstances. If Coal & Allied shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.
- 37 This Concise Report is a summary of our full IER and, in our view, contains all material information contained in that IER and in the technical expert report from AMC Consultants Pty Limited (AMC). In our view this Concise Report provides sufficient information to enable security holders to make a decision in relation to the Scheme. AMC have also confirmed that this Concise Report contains all material information from their technical expert report which AMC believes is necessary to enable security holders to make a decision in relation to the Scheme and are named in our report with their consent as having made this statement. The full IER and the Technical Expert Report is available at www.coalandallied.com.au and contains the complete analysis supporting our reasons and opinion.

Yours faithfully



Craig Edwards
Authorised Representative



Wayne Lonergan
Authorised Representative



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I Valuation of Coal & Allied

DCF valuation

- 38 We have selected the DCF methodology as the primary methodology when valuing Coal & Allied. Under the DCF methodology the value of the mining operations is equal to the net present value (NPV) of the estimated future free cash flows (after tax). In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 39 Our DCF analyses are based on the free cash flow projections derived based on input from AMC Consultants Pty Limited (AMC) on technical mining matters including the reliability of reserve and resource estimates, mining plans, recovery rates and the appropriate operating and capital cost estimates. AMC's report on these matters is included in our full report as Appendix J, and is available on Coal & Allied's website. AMC's assessments have been undertaken in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports.
- 40 The DCF analyses therefore reflect AMC's views on technical mining matters and our opinion on future coal prices, exchange rates, discount rates and other economic and valuation parameters.
- 41 It should be noted that in respect of these projections:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) future profits and cash flows are inherently uncertain. This is particularly so as coal prices have varied significantly in recent years
 - (c) the achievability of these projections is not warranted or guaranteed by Coal & Allied, AMC or LEA, as they are projections based fundamentally on predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management; and
 - (d) actual results may be significantly more or less favourable than projected.
- 42 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments,⁸ capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the mining assets to be determined irrespective of the level of debt funding employed. Our DCF valuation has been undertaken in nominal (inflation adjusted) terms using nominal cash flows and discount rates.
- 43 The free cash flow projections for Coal & Allied's operations cover the period to 31 December 2040, and reflect:
- (a) Coal & Allied's existing mining operations at HVO, MTW and Bengalla
 - (b) mine production at Mount Pleasant from 2014

⁸ Also calculated on an ungeared basis.



(c) increases in production levels to utilise available port capacity allocations.

- 44 To the extent that there are unmined resources at the end of the forecast period in respect of any of the above mines / projects a separate value has been adopted (where appropriate) based on discussions with AMC. Such resources have been valued at between A\$0.375 to A\$1.00 per tonne of resource having regard to the nature of the resource⁹, the time value of money, the risk associated with the resources becoming reserves, the potential for further resource / reserve increases and the possibility of higher port capacity becoming available in the medium to long term.
- 45 A separate value has also been assessed for the Oaklands deposit (which is not included in the DCF analysis).

Valuation of mining interests

- 46 We set out below our combined values for Coal & Allied's respective interests in its operating mines (HVO, MTW and Bengalla), the Mount Pleasant development mine and the Oaklands deposit¹⁰:

Value of mining interests ^{(1), (2)}		
	Low A\$m	High A\$m
Total value	9,300	10,700

Note:

- 1 Prior to any corporate cost allocation.
2 Values attributed to Coal & Allied interest.

- 47 The wide range largely reflects the valuation sensitivity to changes in coal prices. Details of coal price and other key assumptions adopted for valuation purposes are summarised below.

Saleable production profile

- 48 Assumed saleable coal production tonnages attributed to Coal & Allied are shown below:

Coal & Allied share of saleable coal production									
Year to 31 December	3mths			2012	2013	2014	2015	2016	Total to 2040 ⁽²⁾
	2011	2011	2011						
	Mt	Mt	Mt	Mt	Mt	Mt	Mt	Mt	Mt
Saleable coal production	5.3 ⁽¹⁾	24.7	25.7	32.8	38.8	38.5	39.1	39.5	1,163.2

Note:

- 1 Represents estimated production for three months to 31 December 2011.
2 Total for 2011 to 2040 period.

⁹ That is, whether the remaining resource is measured, indicated or inferred.

¹⁰ It should be noted that Coal & Allied has a small number of "legacy" contracts to supply coal at prices which are materially below current market prices. The impact of these contracts is reflected in our DCF value.

- 49 Coal & Allied's share of saleable coal production in the years ended 31 December 2009 and 2010 and in the six months ended 30 June 2011 was 18.9Mt, 18.8Mt and 9.9Mt respectively. Consistent with AMC's advice (and Coal & Allied plans) our valuation model assumes production from Coal & Allied's existing operations is increased to utilise available port capacity allocations at PWCS and Newcastle Coal Infrastructure Group (NCIG).
- 50 Current mine expansions include increases in saleable coal production from:
- (a) HVO – 10.9 Mt in 2010 to a 14Mt rate during 2012
 - (b) MTW – 8.9 Mt in 2010 to a 12Mt rate during 2012 (100% basis)
 - (c) Bengalla – 5.5 Mt in 2010 to a 7.5Mt rate during 2012 (100% basis).
- 51 In addition, saleable production from the Mount Pleasant development mine is projected to commence in 2014 and ramp up to annual saleable production of around 8.5Mtpa.
- 52 Due to the significant reserves and resources at existing mining operations further expansions are expected to be implemented. As formal decisions by Coal & Allied with respect to mine expansions in the medium to long-term have not been made we have undertaken (in conjunction with AMC) sensitivity analysis on the timing and mine expansion options available within the constraints of available port capacity.
- 53 For the purpose of our calculations we have assumed available port capacity is initially equal to 85% of Coal & Allied's actual port capacity allocations (consistent with recent experience), but ramps up to 95% of actual port capacity allocations over time. Actual throughput at PWCS has historically been less than nameplate capacity due to, inter-alia, weather related events (which can impact mine production) and problems with transport logistics. However, a number of initiatives¹¹ have been implemented to improve the efficiency of the Hunter Valley Coal Chain (HVCC) which is expected to result in improved utilisation at the port.
- 54 A summary of total saleable coal production (at HVO, MTW, Bengalla and Mount Pleasant on a 100% ownership basis) over the period to 31 December 2040 compared with marketable reserves (also on a 100% ownership basis) is set out below¹²:

Saleable coal production and marketable reserves (100% ownership basis)	
	Mt
Assumed saleable production to 2040 ⁽¹⁾	1,389.8
Marketable reserves ⁽²⁾	1,008.4
Difference	<u>381.4</u>

Note:

- 1 Represents saleable production over the 2011 to 2040 period.
- 2 As at 31 December 2010.

¹¹ Including making individual producers more responsible for delays which they cause which impact other users.

¹² For the reasons stated above these figures by mine cannot be disclosed.



- 55 As indicated above, total saleable coal production over the period to 31 December 2040 exceeds marketable reserves. However, in our opinion, the above production figures are appropriate having regard to the substantial level of measured and indicated resources in excess of current marketable reserves at each mine¹³, which totalled 1,269 Mt (on a 100% ownership and run of mine (ROM) basis) as at 31 December 2010¹⁴.
- 56 AMC also reviewed the assumed production profiles in detail (by mine and pit) and concluded that the assumptions adopted, including assumed mine expansions, were reasonable. Further information on AMC's view in this regard is set out in Section 1.2 of AMC's Technical Expert's Report, which is included in Appendix J of our full IER (and is available on the Coal & Allied website at www.coalandallied.com.au).

Ownership interests

- 57 Coal production and sales attributed to Coal & Allied reflects the following shares of total production and sales at each mining operation:

Share of attributable production	% interest
HVO	100.0
MTW	64.1
Bengalla	40.0
Mount Pleasant	100.0

- 58 The MTW coal operation reflects the combined interests of the Mount Thorley Co-venture joint venture and the Warkworth Associates joint venture. Coal & Allied holds an 80% interest in the Mount Thorley Co-Venture and a 55.574% interest in Warkworth Associates. In 2004 these two joint ventures entered into an Operational Integration Agreement (OIA) that resulted in the two joint ventures being managed as a single operation. Under the terms of the OIA export coal can be produced from either mine and is allocated between the two joint ventures based on a tonnage commitment ratio that is agreed at the beginning of each year. Since entering into the OIA the tonnage commitment ratio has been Warkworth Associates 65% and Mount Thorley Co-Venture 35%. This results in Coal & Allied receiving 64.1% of total production from the combined MTW operation¹⁵.

Coal prices

- 59 A summary of the coal types currently mined and expected to be produced by Coal & Allied are set out below:

¹³ Measured and indicated resources are additional to the reserves reported above. In addition, there are significant inferred resources at these mines (some 1 billion tonnes on a ROM basis).

¹⁴ For the reasons stated above these figures by mine cannot be disclosed.

¹⁵ Production costs are shared on the same terms as the tonnage ratio.

Coal & Allied – coal types produced	
Mine	Coal type
HVO	Thermal coal / semi-soft coking coal
MTW	Thermal coal / semi-soft coking coal
Bengalla	Thermal coal
Mount Pleasant	Thermal coal

- 60 Accordingly, we set out below the benchmark prices for semi-soft coking coal and thermal coal adopted for valuation purposes. These prices were assessed based on our detailed review of analyst coal price forecasts, futures markets and other factors:

Benchmark coal prices adopted for valuation purposes (FOB US\$/tonne in nominal terms)						
	3 mths to 31 Dec 11	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast ⁽²⁾ Long-term
Low case:						
Semi-soft coking coal	200 ⁽¹⁾	185	160	145	135	125
Thermal coal	130 ⁽¹⁾	120	120	110	105	100
High case:						
Semi-soft coking coal	200 ⁽¹⁾	200	173	157	146	135
Thermal coal	130 ⁽¹⁾	130	130	119	113	108
Semi-soft coking coal price premiums over thermal coal prices						
Low and high cases	54%	48%	33%	32%	29%	25%

Note:

- 1 Thermal coal prices reflect actual contract prices and semi-soft coking coal prices reflect estimated actual prices.
- 2 The long-term price is expressed in 2016 dollar terms (and is assumed to be maintained in real terms).

- 61 The above benchmark prices have then been adjusted slightly in each year of the model to reflect the impact of expected coal quality differences over the life of the mine (e.g. as different coal seams are mined).
- 62 The low case prices are broadly consistent with average analyst forecasts, whereas the high case prices are higher than average analyst forecasts reflecting, inter alia, the more optimistic outlook for coal prices generally held by industry participants and other indicia (e.g. futures markets etc).
- 63 As noted above the USD coal prices are projected to decline reflecting, in part, expectations of increased coal supply over the medium to long-term which will alleviate some of the current demand and supply imbalance. The above projections also assume the price premium for semi-soft coal above thermal coal prices reduces over time to longer term historical levels (as the current tight market conditions for metallurgical coal subsides).
- 64 Further details on our reasoning for the above price assumptions is set out in Appendix C of our full IER which is available on Coal & Allied's website at www.coalandallied.com.au.



Foreign currency rates

- 65 Our assessment of the AUD:USD exchange rates that we consider appropriate for the purpose of our valuation of Coal & Allied is based upon a blended analysis of forward market estimates and long-term (and in some instances short-term) historical foreign exchange trends. We have relied upon the actual AUD:USD forward rates for the purpose of determining the appropriate short-term AUD:USD exchange rates, as these reflect the actual unbiased rates at which currency transactions can be locked in today.
- 66 We have adopted a long-term exchange rate (i.e. for periods beyond FY16) of A\$1.00 = US\$0.82 to A\$1.00 = US\$0.86. In our opinion, these rates are appropriate long-term rates for valuation purposes.
- 67 The AUD:USD exchange rates adopted for valuation purposes are as follows:

AUD:USD exchange rate assumptions						
	3 mths to 31 Dec 11	2012	2013	2014	2015	Long-term
Low	1.00	0.96	0.92	0.88	0.85	0.82
High	1.04	1.00	0.96	0.92	0.89	0.86

- 68 We note that since the above analysis was undertaken (on 20 September 2011) global equity markets, commodity prices and the AUD:USD exchange rate have been very volatile. Due to, in particular, heightened concerns regarding the European sovereign debt crisis and its impact on funding costs and global economic growth (and the repatriation of investment funds back into USD as a result of this market uncertainty), the AUD:USD exchange rate fell below parity (but has since rebounded).
- 69 Accordingly, we have considered whether our AUD:USD exchange rate assumptions should be revised. In this regard we note that:
- due to the strong correlation between USD denominated Australian export commodity (and coal) prices and AUD:USD exchange rates these variables should be assessed on a consistent basis
 - while the price of coal is denominated in USD the relevant price for valuation purposes is the price received by Coal & Allied in AUD. Due to the strong correlation referred to in (a) the AUD price received for export coal is less volatile than the USD price¹⁶
 - the recent fall in the spot AUD:USD exchange rate has coincided with declines in short-term commodity prices. Accordingly, any adjustment to our short (and medium) term AUD:USD exchange rate assumptions would also result in an adjustment to short (and medium) term USD denominated coal prices, the net effect of which (in terms of the short and medium term AUD denominated coal prices) would not be material
 - our opinion on long-term coal prices and the appropriate long-term AUD:USD exchange rate (being the key value drivers) are not materially impacted by short-term events.

¹⁶ For example, as commodity prices increase the AUD:USD exchange rate generally rises. As a result the AUD equivalent of export proceeds may not change materially.

- 70 In our opinion therefore, the recent volatility in USD commodity prices and AUD:USD exchange rates does not require any revision to our implied AUD denominated coal price assumptions.
- 71 Further details on our reasoning for the above foreign exchange assumptions is set out in Appendix D of our full IER which is available on Coal & Allied's website at www.coalandallied.com.au.

Cash operating costs

- 72 Cash operating costs have been assessed by AMC for each mine for each year. Average cash operating costs per saleable tonne of coal produced in real terms are estimated to be A\$51.50 per saleable tonne over the forecast period. This reflects a weighted average across the four mines (on a 100% ownership basis) as individual mine operating costs are commercially sensitive and are unable to be disclosed. This is slightly lower than current cash operating costs and reflects, inter-alia, the lower cash operating costs expected at the Mount Pleasant mine, the impact of expansions and reductions in port charges (in real terms) as surplus cash flow generated at port facilities is used to reduce coal handling charges¹⁷.
- 73 Cash operating costs reflect overburden removal, ROM mining, washing and handling, site administration and rail and port costs. Royalties, carbon tax and head office corporate costs are not included in the above operating costs, but have been separately allowed for.
- 74 The carbon tax impost varies by mine, but averages around A\$3.80 per tonne of saleable production in real terms over the forecast period from 1 July 2012.

Capital expenditure

- 75 Capital cost estimates (on a 100% ownership basis) as projected by AMC over the period to 31 December 2040 are as follows:

Real capital costs estimates	
	A\$m
Project / growth capital expenditure (total)	6,851
Sustaining capital expenditure (average over forecast period – per annum)	238

- 76 Project / growth capital expenditure represents the estimated capital costs of expanding existing mine operations and the estimated capital cost of bringing the Mount Pleasant mine into production.

Inflation

- 77 As stated above our analysis has been undertaken in nominal terms, including allowances for inflation. For the purposes of our valuation we have adopted an inflation rate of 2.5% per annum, consistent with:
- (a) the difference between long-term Australian Government bond yields (which reflect inflationary expectations) and Australian Government indexed bonds yields (which are quoted in real terms excluding inflation); and

¹⁷ Refer section "Investment in PWCS" below for further details.



- (b) the mid-point of the Reserve Bank of Australia's (RBA) target for inflation of between 2% and 3% per annum.

Discount rates

78 The following nominal discount rates (after tax) have been adopted:

Discount rates (in nominal terms)	
	% per annum
HVO, MTW and Bengalla	10.6
Mount Pleasant	12.1

79 The discount rates have been derived using the capital asset pricing model (CAPM) and the weighted average cost of capital (WACC) formulae using the following inputs:

WACC – nominal		
Parameters	HVO, MTW and Bengalla	Mount Pleasant
Beta	1.25	1.25
Market risk premium	6.0%	6.0%
Risk free rate	5.0%	5.0%
Cost of equity	12.5%	12.5%
Additional risk premium	-	2.0%
Adjusted cost of equity	12.5%	14.5%
Cost of pre tax debt (%)	7.0%	7.0%
Tax rate	29.0% ⁽¹⁾	29.0% ⁽¹⁾
Cost of post tax debt	5.0%	5.0%
Gearing	25.0%	25.0%
After tax nominal WACC	10.6%	12.1%

Note:

1 Assumed tax rate for 2014 and beyond.

- 80 We have applied an additional equity risk premium of 2.0% per annum when valuing the Mount Pleasant project. This reflects the greater risks associated with mines in development compared to existing mine operations.
- 81 Further details on our reasoning for the above discount rate assumptions is set out in Appendix F of our full IER which is available on Coal & Allied's website at www.coalandallied.com.au.

State coal mining royalties

- 82 On 6 September 2011 the NSW State Government announced that coal royalties in NSW will be increased “to address the negative financial impacts on NSW of the carbon tax”. The NSW State Government also stated that the increase in coal royalties will only apply to firms that are subject to the Australian Government’s proposed Mineral Resource Rent Tax (MRRT), which therefore includes Coal & Allied. Current coal mining royalties in NSW are 6.2% for deep underground coal mines, 7.2% for underground coal mines and 8.2% for open cut coal mines.
- 83 While the NSW State Government did not announce the proposed new royalty rates¹⁸, in its Budget Statement 2011-12 it stated that the proposed increase in coal royalties was estimated to increase coal royalties by A\$235 million in 2012-13, A\$244 million in 2013-14 and A\$465 million in 2014-15.
- 84 The NSW State Government also provided estimates of its projected mining royalty income (including the impact of the proposed coal royalty increase) over the period to 2014-15, and stated that around 95% of its royalty income was derived from coal.
- 85 Accordingly, we have estimated the increase in coal royalties implied from the above information, which is set out below:

NSW coal mining royalty rate assumptions					
Year to 30 June		2012	2013	2014	2015
		A\$m	A\$m	A\$m	A\$m
Projected royalty income ⁽¹⁾		1,768	2,128	2,215	2,351
Amount related to coal mining (around 95%)	[A]	1,680	2,022	2,104	2,233
Less estimate of amount raised by royalty rate increase		-	235	244	465
Coal mining royalties ⁽²⁾	[B]	1,680	1,787	1,860	1,768
Estimated increase in royalty rate	[A÷B]	-	13.1%	13.1%	26.3%

Note:

- 1 Including impact of royalty rate increase.
 2 Excluding impact of royalty rate increase.

- 86 It should be noted that the above calculation may underestimate the proposed royalty rate increase because it assumes that the royalty rate increase would apply to all NSW coal mines. However, as stated above, the royalty rate increase will only apply to those coal mines which will be subject to the MRRT (being those companies with resource profits equal to or above A\$50 million per annum).
- 87 It should also be noted that the NSW State Government stated that it was “willing to discuss with the Australian Government proposals that recognise the impact of the carbon tax on NSW finances”. Accordingly, the full increase in coal royalty rates proposed may not eventuate.

¹⁸ Legislation to implement the higher royalty rates will be prepared after the Australian Government finalises its carbon tax and MRRT legislation.



- 88 However, we note that if the royalty rate increases set out above were implemented, the royalty rate on open cut coal mines would increase to around 10% in NSW. This would therefore mean that the royalty rate on NSW open cut coal mines would be consistent with the coal royalty rates paid in Queensland in the current coal pricing environment, as Queensland coal mining royalties are currently 10% on revenue above A\$100 per tonne¹⁹.
- 89 Given the above we believe it is appropriate to assume that coal mining royalties in NSW will be increased from current levels with effect from 1 July 2012. Consistent with the NSW State Government Budget estimates we have assumed that any increase would be staged with the full royalty rate increase being levied from 1 July 2014. For the purposes of our valuation we have assumed the following royalty rates are levied:

NSW coal mining royalty rate assumptions			
Year to 30 June	2013 %	2014 %	2015 and beyond %
Open cut mines	8.5 – 9.5	8.5 – 9.5	9.0 – 10.0
Underground mines	7.5 – 8.5	7.5 – 8.5	8.0 – 9.0
Deep underground mines	6.5 – 7.5	6.5 – 7.5	7.0 – 8.0

- 90 We have also considered the sensitivity of our valuation to the royalty rate assumed. However, it should be noted that MRRT, as currently proposed, allows a “royalty allowance” which effectively provides credits for State Government royalty payments which can be used to reduce any MRRT liability. As a result the increase in mining royalties is only expected to have an adverse impact on coal mining companies subject to the MRRT where the MRRT liability in a year is less than the royalties paid.

Federal taxes

- 91 As Coal & Allied will be subject to the MRRT our valuation reflects the impact of the MRRT from 1 July 2012 as currently proposed. In addition we have adopted a corporate tax rate of 29% for Coal & Allied from 2014²⁰ and beyond.
- 92 The MRRT is proposed to commence on 1 July 2012 with a headline rate of 30%. However, an extraction allowance of 25% is applied to acknowledge the mining expertise and know-how required to extract the resource, which effectively reduces the MRRT rate to 22.5%. In addition the corporate tax rate is proposed to reduce to 29%²¹ for the year ending 30 June 2014 (the reduction ostensibly being funded by the MRRT).
- 93 The other key features of the MRRT are as follows:
- (a) with the policy intent of recognising investments made prior to the announcement of the MRRT, existing investments receive a “starting base” of either:

¹⁹ On revenue up to a sales value of A\$100 per tonne the Queensland royalty rate on coal mines is 7%.

²⁰ Reflecting Coal & Allied’s 31 December year end.

²¹ The MRRT headline rate will remain at 30%. The proposed company tax rate for small companies is 28% from the year starting 1 July 2012.

- (i) the market value of the existing investment as at 1 May 2010 (including the value of the mining rights) plus any capital expenditure incurred from 2 May 2010 to 1 July 2012. This starting base is depreciated over the remaining effective life of the asset (up to a maximum period of 25 years). Unused deductions are uplifted at consumer price index (CPI)
- (ii) the written down book value of the project assets as at the latest reported date prior to 1 May 2010 (excluding the value of the mining rights), plus any capital expenditure incurred from 2 May 2010 to 1 July 2012. This starting base is uplifted at the government bond rate plus 7% to 1 July 2012 and is depreciated over a period of five years using an accelerated declining balance depreciation method²²
- (b) a “royalty allowance” effectively provides credits for State royalty payments which can only be used to reduce taxable MRRT profit. Accordingly, if no MRRT liability is incurred in the year the royalty is paid the credit for State royalty payments cannot be used in that year
- (c) unused MRRT losses²³ and/or unused credits for State royalty payments are uplifted at the Government Bond rate plus 7% for use in future periods
- (d) new capital expenditure occurring after 1 July 2012 is deductible in full in the year incurred (as opposed to being depreciated)
- (e) resource profits below A\$50 million per annum will not incur an MRRT liability
- (f) the MRRT will allow transferability of losses between Australian iron ore and Australian coal projects (i.e. but not across other commodities) within a wholly owned group to the extent that the other project has sufficient mining profits to absorb the remaining mining losses once it has applied its own royalty, mining loss and starting base allowances. Unused royalty credits and unused starting base allowance are not transferable).

94 We note that the Resource Tax Implementation Group, which comprises representatives of industry, the tax profession and government officials, is currently in consultation with the resource sector and considering submissions made on the MRRT draft legislation. The final form of the MRRT, to be voted upon in Parliament before the end of calendar year 2011 or in early 2012 is yet to be resolved. Therefore, the impact of the proposed MRRT is still uncertain.

Investment in PWCS

95 Coal & Allied has a 36.5% interest in PWCS, which operates the world’s largest coal handling port in Newcastle.

²² The write off rates are 36%, 37.5%, 37.5%, 60% and 100% over the respective five years. Furthermore, unused deductions from this method can be uplifted at the Government Bond rate plus 7%.

²³ The exception is the portion of the loss attributable to unused starting base allowance.



- 96 The return to shareholders in PWCS is limited to the payment of a fixed dividend, indexed for inflation. Cash inflows are derived from coal handling charges that are calculated on an annual basis to cover anticipated cash outflows, including the repayment of debt facilities which have financed the port. Any increase in the value of the equity in the port as debt is paid down is effectively shared by all users in the form of reduced coal handling charges due to future savings in interest costs, and no additional benefit is received by shareholders²⁴.
- 97 This is also consistent with both the PWCS “charter” and “common user principles”, pursuant to which PWCS is committed to the long-term objective of minimising coal handling charges at the port for all users.
- 98 As the only return to PWCS shareholders is the dividend²⁵ we have valued Coal & Allied’s interest in PWCS using the capitalisation of dividends approach. Under this methodology the value of the shareholding is equal to next year’s dividend capitalised at an appropriate rate, as follows:

Capitalisation of future dividends approach

$$\text{Value} = D_1 / (r - g)$$

Where:

D_1	=	next year’s dividend
r	=	required rate of return
g	=	growth in annual dividend

- 99 In the year ended 30 June 2011 Coal & Allied received a fully franked dividend of A\$10.9 million. Allowing for 2.5% inflation^{26, 27} results in an estimated dividend for the year ending 30 June 2012 of A\$11.2 million.
- 100 For valuation purposes we have applied a discount rate of 6.0% to 6.5% per annum, reflecting the low risk nature of an investment in PWCS shares. This low risk arises because the payment of the dividend (and all PWCS operating and financing costs) is recovered from port users under long-term take-or-pay agreements.
- 101 Assuming growth in future dividends of 2.5% per annum (being inflation) therefore results in the following value for Coal & Allied’s shares in PWCS:

²⁴ When valuing Coal & Allied’s coal mining interests we have adopted future port charges at PWCS which are consistent with the principles outlined above.

²⁵ We understand that the shareholders in PWCS do not receive any preferential access to allocations of capacity at the port.

²⁶ Consistent with the mid-point of the RBA’s target range of 2.0% to 3.0% per annum.

²⁷ The dividend is indexed annually at the rate of inflation.

Value of PWCS		Low	High
		A\$m	A\$m
Estimated dividend in year ending 30 June 2012	[A]	11.2	11.2
Discount rate		6.5%	6.0%
Growth in annual dividends		2.5%	2.5%
Capitalisation rate ⁽¹⁾	[B]	4.0%	3.5%
Value of PWCS shareholding	[A] / [B]	280.0	320.0

Note:

- 1 This is a "growth in perpetuity" formula. Although PWCS has a finite expected life its operational capacity will be continually maintained and upgraded over time. The present value effect of adjusting for the ultimately finite life of PWCS is immaterial.

Other assets

- 102 Coal & Allied have a number of other assets which are not reflected in our DCF values. These assets include cash (net of borrowings), surplus land and the capitalised value of management and other fees receivable in relation to some of its joint ventures. We have assessed the value of these other assets at between A\$220 million and A\$235 million.

Corporate costs

- 103 Corporate costs of around A\$22.0 million (before tax) are incurred annually. As these costs are not reflected in our DCF values of the coal mining operations we have deducted the capitalised value of these after tax costs in our valuation. Based on the DCF methodology and a discount rate of 10.6% per annum (equal to the rate applied when valuing Coal & Allied's existing coal mining operations) we have adopted a value for future corporate costs of negative A\$140 million to A\$170 million.

Shares on issue

- 104 Coal & Allied has 86.6 million fully paid shares on issue. There are no other securities or employee options on issue. While Coal & Allied's senior management and employees participate in a number of share and option plans these are administered by Rio Tinto and involve the issue of shares and options over Rio Tinto shares rather than Coal & Allied shares. The cost of these plans is then recharged by Rio Tinto to Coal & Allied and is included in corporate costs above.

Value of Coal & Allied shares

- 105 On this basis our assessed value of Coal & Allied shares on a 100% controlling interest basis is as follows:

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Coal & Allied – valuation of 100% controlling interest		
	Low A\$m	High A\$m
Value of coal mining interests ⁽¹⁾	9,300	10,700
Present value of corporate costs	(170)	(140)
Enterprise value	9,130	10,560
Investment in PWCS	280	320
Other assets (including net cash)	220	235
Value of equity	9,630	11,115
Shares on issue (m)	86.6	86.6
Value per share (A\$)	\$111.20	\$128.35

Note:

- 1 Representing the value of Coal & Allied's interests in the HVO, MTW and Bengalla operating mines, the Mount Pleasant development project and the Oaklands project.

Sensitivity analysis

- 106 The value of Coal & Allied shares is particularly sensitive to the coal price, foreign exchange rate and discount rate assumptions selected. However, it should be noted that there is a strong correlation between the AUD:USD exchange rate and USD commodity prices. In the long-term it is therefore unlikely that high USD coal prices will occur at times of low AUD:USD exchange rates or that low USD coal prices will occur at times of high AUD:USD exchange rates. Accordingly, we believe it is more appropriate to show the sensitivity in value to movements in the coal price implied in AUD terms.
- 107 We have therefore applied the following sensitivities to our values:
- (a) discount rates ranging +/- 0.25% and 0.5%
 - (b) coal prices +/- A\$2.50, A\$5 and A\$10 per tonne (inflation adjusted from 2017).
- 108 A summary of these sensitivities is set out below:

Sensitivity of Coal & Allied share value to coal prices and discount rates (A\$ value per share)					
Discount rate	-0.50%	-0.25%	Base rates	+0.25%	+0.50%
	A\$	A\$	A\$	A\$	A\$
Coal pricing scenarios:					
Plus A\$10 per tonne	153.83	150.10	146.51	143.06	139.74
Plus A\$5 per tonne	140.00	136.58	133.30	130.14	127.10
Plus A\$2.5 per tonne	132.88	129.64	126.51	123.51	120.62
Mid-point of A\$ coal prices adopted	125.74	122.66	119.78	116.84	114.10
Minus A\$2.5 per tonne	118.56	115.65	112.85	110.15	107.56
Minus A\$5 per tonne	111.37	108.63	105.98	103.44	101.00
Minus A\$10 per tonne	96.92	94.51	92.19	89.96	87.82

- 109 Consistent with coal projects generally (where output is primarily for export purposes), the table above highlights that movements in AUD coal price forecasts have the ability to significantly impact the value of Coal & Allied, both positively and negatively.

Valuation cross-checks

Pre-announcement share trading range

- 110 We have cross-checked for reasonableness our assessed value to the listed market price of Coal & Allied shares. We note that:
- (a) the stock market value of Coal & Allied shares has been high, notwithstanding that 85.9% of the shares are held by Rio Tinto and Mitsubishi Development
 - (b) Coal & Allied has a large market capitalisation and is well researched and analysed by share broking firms and institutional investors²⁸
 - (c) significant information has been disclosed in relation to Coal & Allied's operations in its financial reports and stock exchange announcements
 - (d) Coal & Allied has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning Coal & Allied which a reasonable person would expect to have a material effect on the price or value of Coal & Allied.
- 111 In order to cross-check our valuation of Coal & Allied shares we have therefore considered the listed market price of Coal & Allied shares up to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto), adjusted for:
- (a) a premium for control; and
 - (b) the material movement in stock market values generally between the date of the share price and the date of the announcement of Rio Tinto's indicative proposal. In this regard we note that S&P/ASX 200 Resources Index fell 10.8% and 14.2% over the one month and three month periods up to 5 August 2011 respectively.
- 112 The volume weighted average share prices for Coal & Allied in the one and three month periods up to 5 August 2011 (adjusted for the movement in the average S&P/ASX 200 Resources Index over the period and the Index on 5 August 2011) were A\$91.04 and A\$93.45 respectively (refer Section II for detailed calculations).
- 113 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover).
- 114 Adding a 30% to 35% premium for control to these adjusted share prices would therefore result in a theoretical "control" value of A\$118 to A\$126 per share (which is consistent with our valuation range).

²⁸ As at 23 September 2011 a total of seven analysts provided earnings forecasts for Coal & Allied.



Earnings and other multiples

- 115 In assessing the reasonableness of our valuation we have also considered the EBITDA multiples and value per tonne of reserves and resources implied by our valuation. These multiples for Coal & Allied are shown below:

Coal & Allied – other valuation cross-checks		
	Low	High
Enterprise value (A\$m)	9,130	10,560
Average analyst forecast EBITDA for 2011 (A\$m)	971	971
Average analyst forecast EBITDA for 2012 (A\$m)	1,230	1,230
Total reserves (Mt) ⁽¹⁾	1,100	1,100
Total measured and indicated resources (Mt)	3,447	3,447
Total resources (Mt) ⁽¹⁾	4,357	4,357
Multiples		
EBITDA (2011)	9.4	10.9
EBITDA (2012)	7.4	8.6
Value per tonne of reserves (A\$/t)	\$8.30	\$9.60
Value per tonne of measured and indicated resources (A\$/t)	\$2.65	\$3.06
Value per tonne of resources (A\$/t)	\$2.10	\$2.42

Note:

- 1 Attributed reserves and resources only (i.e. Coal & Allied's share of total reserves and resources) as at 31 December 2010.

- 116 The multiples implied from the larger coal transactions in Australia in recent years are set out below:

Relevant transaction evidence									
Date	Target	Types of Coal ⁽¹⁾	Purchase price A\$m	Interest acquired %	Enterprise value / M&I			EBITDA	
					Reserve AS/t	resource AS/t	Resource AS/t	Historical x	Forecast x
Jul 11	Macarthur Coal	HCC, LV PCI, TC	3,481	84.0	24.7	4.5	2.4	19.3	9.6
May 10	Centennial Coal	TC	2,832	100.0	8.8	1.5	1.3	16.5	8.0
Aug 09	Felix Resources	TC, PCI, SSCC	3,277	100.0	8.5	4.3	2.4	8.4	16.9
Jul 08	New Saraji Project	HCC, PCI	2,450	100.0	na	15.7	3.6	na	na
Jul 06	Excel Coal	HCC, SSCC, TC	2,325	100.0	6.5	2.0	1.8	12.4	9.6

Note:

- 1 Definitions of difference coal type terms are HCC – Hard coking coal, LV PCI – Low volatile PCI coal, PCI – Pulverised coal injection coal, SSCC – Semi-soft coking coal, TC – Thermal coal.
na – not available.

- 117 With regard to the above, we note the following:

- (a) **Macarthur Coal** – the company has significant projects in development with a relatively large resource base and produces mostly metallurgical coal

- (b) **Centennial Coal** – a large proportion of the company's sales at the time of the transaction involved legacy contracts at prices below market prices (hence the lower values per resource shown above)
- (c) **Felix Resources** – had a large development pipeline, with thermal and semi-soft coals produced. This company is the most comparable of the above to Coal & Allied and the multiples implied above are consistent with those calculated in our valuation (with the exception of the forecast EBITDA multiple which reflected a major fall in coal prices, largely due to the GFC and its aftermath)
- (d) **New Saraji Project** – this was undeveloped hard coking coal resource sold to the BMA Alliance, with the transacted price reflecting the nature of the asset (i.e. a hard coking coal resource), high coal prices at the time and significant synergistic benefits with existing operations
- (e) **Excel Coal** – production was weighted equally between metallurgical and thermal coals.

- 118 The multiples implied from the Australian listed coal companies, along with a brief description of the location of the assets and type of coal produced is set out below:

Australian ASX listed coal companies				Enterprise value / M&I			EBITDA	
Company	EV A\$m	Location	Types of coal ⁽¹⁾	Reserve AS/t	resource AS/t	Resource AS/t	FY11 x	FY12 x
Macarthur Coal ⁽²⁾	3,017.5	Bowen Basin	LV PCI, TC	18.0	3.2	1.7	14.0	7.0
New Hope Corp	2,470.7	South Qld	TC	3.8	1.6	1.2	10.0	9.3
Whitehaven Coal	2,683.0	Gunnedah Basin	SSCC, PCI, TC	6.7	3.4	1.8	18.2	8.4
Aquila Resources	1,985.2	Bowen Basin	HCC, PCI, TC	7.6	2.7	2.0	nm	nm
Aston Resources	2,010.2	Gunnedah Basin	SSCC, TC	6.6	5.4	3.9	nm	nm
Gloucester Coal	1,627.1	Gloucester Basin	SSCC, TC	5.9	1.6	1.1	16.4	8.0

Note:

1 Definitions of difference coal type terms are HCC – Hard coking coal, LV PCI – Low volatile PCI coal, PCI – Pulverised coal injection coal, SSCC – Semi-soft coking coal, TC – Thermal coal.

2 Calculated as at 11 July 2011, being the trading day prior to the joint takeover offer by Peabody Energy Corporation and ArcelorMittal S.A.

nm – not meaningful.

- 119 Based on our review of the multiples for both the most relevant transactions and listed Australian coal companies we consider the above implied multiples for Coal & Allied to be reasonable. However, it should be noted that there are considerable limitations regarding the comparability of these valuation metrics to other coal mining companies due to, inter-alia:
- (a) the type and quality of coal produced – as metallurgical coals sell for higher prices per tonne than thermal coal, higher resource multiples for metallurgical coal companies would be expected even if all other variables (such as cost of production etc) were reasonably comparable
 - (b) the type of mining operation (e.g. open cut versus underground mines) – as underground mines are generally riskier than open cut mines



- (c) the mix of operating and development assets – a greater proportion of development assets would be expected to result in higher EBITDA multiples due to the mines in development not yet contributing to EBITDA
- (d) the availability of rail and port capacity and the ability to expand production to meet available capacity
- (e) differences in unit costs of production – high cost producers would generally be expected to trade on lower EBITDA and reserve and resource multiples (reflecting their likely lower profit potential and greater risk to a downturn in coal prices)
- (f) differences and varying stages of coal deposit development etc.

Conclusion

- 120 Having regard to the above we have concluded that our assessed value for Coal & Allied shares is reasonable and appropriate.

II Evaluation of the Scheme

- 121 In our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal. We have formed this opinion for the following reasons.

Assessment of the Scheme

Value of Coal & Allied

- 122 As set out in Section I we have assessed the value of Coal & Allied between A\$111.20 and A\$128.35 per share.

Value of Scheme Consideration

- 123 If the Scheme is approved and implemented, Coal & Allied shareholders will receive A\$125.00 cash for each Coal & Allied share they hold on the Scheme Record Date, less the cash amount of any Special Dividend which Coal & Allied announces before the Scheme Record Date.
- 124 Under the Scheme Implementation Agreement, Coal & Allied intends to pay a fully franked Special Dividend of up to A\$8.00 per Coal & Allied share, subject to the necessary approvals for the Scheme being obtained and Coal & Allied obtaining a ruling from the ATO. Should a Special Dividend of A\$8.00 per Coal & Allied share be paid the cash consideration payable under the Scheme will be reduced to A\$117.00 per share.
- 125 Coal & Allied shareholders on the Record Date will therefore receive a total of A\$125.00 cash per share if the Scheme is implemented regardless of whether a Special Dividend is paid. Accordingly, we have assessed the Scheme Consideration at A\$125.00 per share. However, due to the benefit of franking credits we note that the value of the Scheme Consideration (and Special Dividend) to some Australian resident shareholders may be greater than A\$125.00 per share if a Special Dividend is paid.

Fairness

- 126 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of Coal & Allied			
	Low	High	Mid-point
	A\$ per share	A\$ per share	A\$ per share
Value of Scheme Consideration	125.00	125.00	125.00
Value of 100% of Coal & Allied per share	111.20	128.35	119.78
Extent to which the Scheme Consideration exceeds (or is less than) the value of Coal & Allied	13.80	(3.35)	5.22

- 127 As the Scheme Consideration lies within our assessed valuation range for Coal & Allied shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Coal & Allied shareholders when assessed based on the guidelines set out in RG 111.



Other qualitative factors

- 128 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 129 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Coal & Allied shareholders in the absence of a superior proposal.
- 130 In assessing whether the Scheme is reasonable and in the best interests of Coal & Allied shareholders LEA has also considered, in particular:
- (a) the extent to which a control premium is being paid to Coal & Allied shareholders
 - (b) the extent to which Coal & Allied shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (c) the listed market price of the shares in Coal & Allied, both prior to and subsequent to the announcement of the proposed Scheme
 - (d) the likely market price of Coal & Allied securities if the proposed Scheme is not approved
 - (e) the value of Coal & Allied to an alternative offeror and the likelihood of a higher alternative offer being made for Coal & Allied prior to the date of the Scheme meeting
 - (f) the advantages and disadvantages of the Scheme from the perspective of Coal & Allied shareholders
 - (g) other qualitative and strategic issues associated with the Scheme.
- 131 These issues are discussed in detail below.

Extent to which a control premium is being paid

- 132 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company’s shares²⁹ three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
 - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
 - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
 - (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

²⁹ After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

- 133 We have calculated the premium implied by the Scheme Consideration by reference to the market prices of Coal & Allied shares (as traded on the ASX) for periods up to and including 5 August 2011 (being the trading day prior to the announcement of the indicative proposal from Rio Tinto).
- 134 We note that Coal & Allied shareholders received an interim dividend of A\$1.20 per share on 26 August 2011 and that the share prices prior to the ex-date of 8 August 2011 (including the periods over which we have measured the premiums implied by the Scheme Consideration) traded with an entitlement to this dividend.
- 135 Accordingly, to ensure the implied premium is calculated on an appropriate basis we have therefore adopted a total consideration of A\$126.20 per share for implied offer premium calculation purposes, determined as follows:

Total consideration for offer premium calculations⁽¹⁾	
	A\$
Scheme Consideration ⁽²⁾	125.00
Coal & Allied's FY11 interim dividend	1.20
Total value to Coal & Allied shareholders	<u>126.20</u>

Note:

- 1 In our opinion it is more appropriate to calculate the implied offer premium using the pre-bid market price without adjustment for the interim dividend, and compare this price with the total value received by shareholders (being the Scheme Consideration and the interim dividend paid post announcement of the Scheme). This is primarily because, in our view, is a better measure of the "return" generated by shareholders over the period.
- 2 Excluding any separate benefit from franking credits.

- 136 The implied offer premium relative to Coal & Allied share prices up to 5 August 2011 is shown below:

Implied offer premium relative to recent Coal & Allied share prices		
	Coal & Allied share price A\$	Implied offer premium⁽¹⁾ %
Scheme Consideration (including interim dividend)	126.20	
Closing share price on:		
5 August 2011 (the last trading day prior to the announcement)	91.00	38.7
5 July 2011 (1 month prior)	105.08	20.1
5 May 2011 (3 months prior)	109.61	15.1
Volume weighted average price (VWAP):		
1 month to 5 August 2011	101.04	24.9
3 months to 5 August 2011	104.35	20.9

Note:

- 1 Before allowing for any fall in the ASX.



- 137 However, we note that share market values have generally fallen materially over the above periods. For example, the S&P/ASX 200 Resources Index fell 10.8% and 14.2% over the one month and three month periods up to 5 August 2011 respectively. Accordingly, in our opinion, it is appropriate to calculate the implied premiums by reference to the market price of Coal & Allied shares adjusted to reflect the material movement in stock market values generally between the date of the share price and the date of the announcement of Rio Tinto's indicative proposal. As stated above, such an approach is also consistent with the basis upon which we have calculated the average control premiums paid in takeovers generally.
- 138 Adjusting the Coal & Allied share prices above for the movement in the S&P/ASX 200 Resources index in the intervening period up to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto) results in the following offer premiums:

Implied offer premium adjusted for movement in market indices				
	Actual price A\$	Market movement %	Adjusted price ⁽¹⁾ A\$	Adjusted premium ⁽²⁾ %
Based on closing prices adjusted for market movement:				
5 August 2011	91.00	-	91.00	38.7
5 July 2011	105.08	(10.8)	93.68	34.7
5 May 2011	109.61	(14.2)	94.04	34.2
Based on VWAP prices adjusted for market movement:				
1 month period to 5 August 2011	101.04	(9.9)	91.04	38.6
3 month period to 5 August 2011	104.35	(10.4)	93.45	35.0

Note:

- 1 Price adjusted for market movement up to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto).
- 2 Premium implied by Scheme Consideration (and interim dividend) above adjusted price.

- 139 Further, we note that share market indices generally have continued to fall and are lower at 23 September 2011 than they were on 5 August 2011. Accordingly, in the absence of the Scheme, in our opinion, it is likely that Coal & Allied shares would be trading below the levels indicated in the above table.
- 140 Having regard to the above, in our opinion, the Scheme Consideration provides Coal & Allied shareholders with a premium that is consistent with observed premiums generally paid in comparable circumstances. Accordingly, in our opinion, Coal & Allied shareholders are being compensated for the fact that 100% control of Coal & Allied will pass to Rio Tinto and Mitsubishi Development if the Scheme is approved.

Extent to which Coal & Allied shareholders are being paid a share of synergies

- 141 Rio Tinto and Mitsubishi Development currently hold a combined interest in Coal & Allied of 85.9%. As a result of acquiring the interests held by other shareholders pursuant to the Scheme some cost savings will be achieved, including the elimination of listed company costs and lower shareholder communication costs. However, the value of these cost savings are very minor relative to the value of Coal & Allied.

Recent share prices subsequent to the announcement of the Scheme

- 142 Shareholders should note that Coal & Allied shares have traded on the ASX in the range of A\$121.75 to A\$123.30 per share in the period since the Scheme was announced up to 23 September 2011. These share prices are lower than the Scheme Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge.

Likely price of Coal & Allied shares if the Scheme is not implemented

- 143 If the Scheme is not implemented we expect that, at least in the short-term, Coal & Allied shares will trade at a significant discount to our valuation and the Scheme Consideration due to the difference between the value of Coal & Allied shares on a portfolio basis and their value on a 100% takeover basis and recent falls in sharemarkets generally. In this regard we note that:
- (a) Coal & Allied shares last traded at A\$91.00 per share on 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto)
 - (b) the S&P/ASX 200 Resources Index was some 7.8% lower on 21 October 2011 than its index level on 5 August 2011.
- 144 If the Scheme is not implemented those Coal & Allied shareholders who wish to sell their Coal & Allied shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Scheme.

Likelihood of an alternative offer

- 145 In our opinion, there is no realistic likelihood of a higher offer or superior proposal to the Scheme being received prior to the Scheme meeting. This is because:
- (a) Rio Tinto and Mitsubishi Development hold a combined interest in Coal & Allied shares of 85.9%
 - (b) any alternative offer by another party for 100% of Coal & Allied could not succeed unless Rio Tinto agreed to sell its shareholding
 - (c) Rio Tinto has held its majority shareholding in Coal & Allied since 1993 and has not indicated any intention of selling it
 - (d) the Coal & Allied business is highly complementary to Rio Tinto's other businesses.
- 146 Further, we note that the Coal & Allied share price continues to trade below the Scheme Consideration. This indicates that market participants do not expect a superior offer or proposal to emerge.
- 147 Coal & Allied shareholders should also be aware that the Scheme Consideration of A\$125 per share represents an increase on the indicative proposal from Rio Tinto announced on 8 August 2011 of A\$122 per share.



Summary of opinion on the Scheme

148 We summarise below the likely advantages and disadvantages for Coal & Allied shareholders if the Scheme proceeds.

Advantages

149 The Scheme has the following benefits for Coal & Allied shareholders:

- (a) the Scheme Consideration of A\$125.00 cash per share is toward the high end of our assessed value range for Coal & Allied shares on a 100% controlling interest basis
- (b) the Scheme Consideration represents a significant premium to the recent market prices of Coal & Allied shares prior to the announcement of the indicative proposal from Rio Tinto on 8 August 2011
- (c) furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Coal & Allied shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the indicative proposal from Rio Tinto was announced.

150 Further, it should be noted that as Rio Tinto and Mitsubishi Development already own 85.9% of Coal & Allied shares there is no realistic likelihood that a competing offer for Coal & Allied shares will be received prior to the Scheme meeting.

Disadvantages

151 Coal & Allied shareholders should note that if the Scheme is implemented they will no longer hold an interest in Coal & Allied. Coal & Allied shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration.

152 However, as our assessed value of Coal & Allied shares is consistent with the Scheme Consideration, in our opinion, the present value of Coal & Allied's future potential is reflected in the Scheme Consideration.

153 Shareholders should also note that the value of Coal & Allied shares is particularly sensitive to long-term coal price assumptions in AUD terms. While our valuation reflects long-term coal prices which are consistent with average analyst forecasts at the low end, and higher than average analyst forecasts at the high end, those shareholders which have a more optimistic view on long-term coal prices may consider the Scheme Consideration to be inadequate³⁰.

³⁰ We note however the impact of changes in the AUD:USD exchange rate and the importance of AUD coal prices rather than just USD coal prices and the (often significantly offsetting) increase in the value of the AUD at times of higher commodity prices.

**Conclusion**

- 154 Given the above analysis, we consider the acquisition of Coal & Allied shares under the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal.
- 155 We note that Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) must pass two resolutions in order for the Scheme to proceed (referred to in the Notice of Meeting and Scheme Booklet as the Section 611 Item 7 Resolution and the Scheme Resolution). In our opinion both resolutions are fair and reasonable for the reasons stated above.



Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to Coal & Allied shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fixed fee of \$550,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.



Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)



Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.
- 2 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan, who are each authorised representatives of LEA. Mr Edwards and Mr Lonergan have over 17 years and 35 years experience respectively in the provision of valuation advice.

Reliance on technical experts

- 3 To assist us to assess the value of Coal & Allied's coal assets we appointed AMC Consultants Pty Ltd (AMC) to provide an opinion on technical mining matters including the reliability of reserve and resource estimates, recovery rates, mining plans and the appropriate operating and capital cost estimates. AMC has also provided an opinion on the value of the coal assets of Coal & Allied that are in the exploration and evaluation stage. AMC provides a range of technical advisory services to the mineral resources industry and has significant experience in the coal mining sector.
- 4 LEA has relied on the work undertaken by AMC when forming our opinion on the value of Coal & Allied's coal assets. A copy of the AMC report is included at Appendix J of our full report which is available on Coal & Allied's website.
- 5 In making references to Coal & Allied's coal reserves and resources in this report we have relied on the report prepared by AMC and statement of reserves and resources issued by Coal & Allied. LEA does not certify these reserves and resources for the purpose of the Joint Ore Reserves Committee (JORC) Code.

Declarations

- 6 This report has been prepared at the request of the Proposal Response Committee to accompany the Scheme Booklet to be sent to Coal & Allied shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development).

Interests

- 7 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 8 LEA has had no prior business or professional relationship with Coal & Allied or Rio Tinto and Mitsubishi Development prior to the preparation of this report.



Appendix B

Indemnification

- 9 As a condition of LEA's agreement to prepare this report, Coal & Allied agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Coal & Allied which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 10 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.



Appendix C

Glossary

Term	Meaning
Agreement	Scheme Implementation Agreement
AMC	AMC Consultants Pty Ltd
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUD:USD	AUD and United States dollar
BMA Alliance	BHP Billiton / Mitsubishi Development Alliance
CAPM	Capital asset pricing model
Coal & Allied	Coal & Allied Industries Limited
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CPI	Consumer price index
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FOB	Free-on-board
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GFC	Global financial crisis
HVCC	Hunter Valley Coal Chain
HVO	Hunter Valley Operations
IEA	International Energy Agency
IER	Independent expert's report
JORC	Joint Ore Reserves Committee
LEA	Loneragan Edwards & Associates Limited
Mitsubishi Development	Mitsubishi Development Pty Ltd
MRP	Market risk premium
MRRT	Mineral Resource Rent Tax
Mt	Million tonnes
Mtpa	Million tonnes per annum
MTW	Mount Thorley Warkworth
NCIG	Newcastle Coal Infrastructure Group
NPV	Net present value
NSW	New South Wales
OIA	Operational Integration Agreement
PWCS	Port Waratah Coal Services
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
Rio Tinto	Rio Tinto Limited
ROM	Run of mine
RTCA	Rio Tinto Coal Australia Pty Limited
Scheme	Scheme of Arrangement
Scheme Consideration	A\$125.00 cash per share less any Special Dividend)
Special Dividend	A fully franked dividend of up to A\$8.00 cash per share
UK	United Kingdom
VWAP	Volume weighted average price
WACC	Weighted average cost of capital

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ATTACHMENT B

Scheme

Attachment B. Scheme

Scheme of Arrangement

Coal & Allied Industries Limited
ACN 008 416 760

Scheme Participants

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Scheme of Arrangement

Under section 411 of the Corporations Act

DATE

PARTIES

Coal & Allied Industries Limited (ACN 008 416 760) (**CNA**)

Each Scheme Participant

OPERATIVE PROVISIONS

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document:

Account Trustee means CNA as trustee for the Scheme Participants.

ACH means Australian Coal Holdings Pty. Limited (ACN 000 066 491).

ASIC means the Australian Securities and Investments Commission.

ASX means the Australian Securities Exchange or ASX Limited (ABN 98 008 624 691), as the context requires.

Bidco means Hunter Valley Resources Pty Ltd (ACN 151 471 242).

Business Day means a day which is not a Saturday, Sunday or public holiday in Melbourne, Victoria, in Sydney, New South Wales or in Tokyo, Japan.

CHESS means the clearing house electronic subregister system for the electronic transfer of securities operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

CNA Shares means all of the fully paid ordinary shares in the capital of CNA.

CNA Shareholder means a registered holder of CNA Shares.

Corporations Act means the *Corporations Act 2001* (Cth).

Court means the Federal Court of Australia.

Deed Poll means the deed poll dated 19 October 2011 under which Bidco covenants in favour of each Scheme Participant to perform its obligations under this Scheme.

Effective, when used in relation to this Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which this Scheme becomes Effective.

Excluded Shareholder means ACH, Mitsubishi Development, Bidco and any related body corporate of any of those companies which holds CNA Shares as at the Scheme Record Date.

Immediately Available Funds means a bank cheque or other form of cleared funds acceptable to CNA.

Implementation Date means the third Business Day after the Scheme Record Date, or such other date as CNA and Bidco may agree in writing.

Mitsubishi Development means Mitsubishi Development Pty Limited (ACN 009 779 873).

Register means the register of members of CNA.

Registered Address means, in relation to a CNA Shareholder, the address of the shareholder shown in the Register.

Related Body Corporate means:

- (a) with respect to Bidco, any entity which is a related body corporate of Bidco within the meaning of section 50 of the Corporations Act, other than, for the purposes of this document, CNA and its subsidiaries; and
- (b) with respect to CNA, any entity which is a related body corporate of CNA within the meaning of section 50 of the Corporations Act, other than, for the purposes of this document, Bidco and any related body corporate of Bidco (as defined in paragraph (a)).

Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between CNA and the Scheme Participants, set out in this document, subject to any alterations or conditions made or required to be made pursuant to section 411(6) of the Corporations Act.

Scheme Booklet means the information memorandum relating to this Scheme approved by the Court and despatched to CNA Shareholders, and includes this Scheme, the explanatory statement as that term is defined in section 412 of the Corporations Act, the Independent Expert's Report and relevant notices of meetings, including the Scheme Meeting, and proxy forms.

Scheme Consideration means \$125.00 for each CNA Share held as at the Scheme Record Date less the cash amount of any Special Dividend that CNA has determined and announced that it will pay by not later than the date that is five Business Days after the Implementation Date, being the last date for payment of the Scheme Consideration to Scheme Participants in accordance with clause 6 of this Scheme.

Scheme Implementation Agreement means the agreement between Bidco and CNA dated 26 August 2011 relating to the implementation of this Scheme.

Scheme Meeting means the meeting of CNA Shareholders, as ordered by the Court pursuant to section 411(1) of the Corporations Act, to consider this Scheme.

Scheme Participant means a person who is a CNA Shareholder as at the Scheme Record Date, other than an Excluded Shareholder.

Scheme Record Date means 7.00 pm on the seventh Business Day after the Effective Date, or such other date (after the Effective Date) as CNA and Bidco may agree in writing.

Second Court Date means the first day on which the Court hears the application for an order under section 411(4)(b) of the Corporations Act approving this Scheme or, if the

application is adjourned or subject to appeal for any reason, the first day on which the adjourned or appealed application is heard.

Share Registry means Computershare Investor Services Pty Limited (ACN 078 279 277), or such other person that provides share registry services to CNA from time to time.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the CNA Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all CNA Shares.

Special Dividend means a fully franked dividend on all CNA Shares which satisfies the following:

- (a) the amount of the Special Dividend is not more than \$8.00 per CNA Share;
- (b) the payment of the Special Dividend is subject to a tax ruling (or a draft of that ruling) in a form acceptable to CNA and Bidco (both acting reasonably) being given by the Australian Taxation Office;
- (c) the payment of the Special Dividend must not result in CNA being in franking credit deficit immediately after paying the Special Dividend;
- (d) the Special Dividend is not paid if either the Scheme does not become Effective or Bidco does not, in accordance with clause 6.2 of this Scheme, make the deposit of cleared funds equivalent to the aggregate amount of the Scheme Consideration into an account nominated by CNA;
- (e) the Special Dividend is paid to the CNA Shareholders who are on the Register as at the Special Dividend Record Date; and
- (f) the Special Dividend is to be paid by a date that is not later than the date that is five Business Days after the Implementation Date, being the last date for payment of the Scheme Consideration to Scheme Participants in accordance with clause 6 of this Scheme.

Special Dividend Record Date means 7.00 pm on the date announced by CNA as the date for determining entitlements to the Special Dividend, which must be after the Effective Date and before the Scheme Record Date.

Sunset Date means 26 February 2012 or such later date as may be agreed by CNA and Bidco.

Trust Account means the trust account referred to in clause 6.2 to be operated by CNA to hold the Scheme Consideration on trust for the purpose of paying the Scheme Consideration to the Scheme Participants in accordance with this Scheme.

1.2 Rules for interpreting this document

Headings and catchwords are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

- (a) A reference to:
 - (i) a legislative provision or legislation (including subordinate legislation) is to that provision or legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;

- (ii) a document (including this document) or agreement, or a provision of a document (including this document) or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;
- (iii) a party to this document or to any other document or agreement includes a permitted substitute or a permitted assign of that party;
- (iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and
- (v) anything (including a right, obligation or concept) includes each part of it.
- (b) A singular word includes the plural, and vice versa.
- (c) A word which suggests one gender includes the other genders.
- (d) If a word or phrase is defined, any other grammatical form of that word or phrase has a corresponding meaning.
- (e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.
- (f) The words **associate, entity, officer, relevant interest** and **subsidiary** have the same meaning as in section 9 of the Corporations Act.
- (g) The words **related body corporate** have the same meaning as in section 50 of the Corporations Act.
- (h) The word **agreement** includes an undertaking or other binding arrangement or understanding, whether or not in writing.
- (i) The expression **this document** includes the agreement, arrangement, understanding or transaction recorded in this document.
- (j) All references to time in this document are references to time in Sydney, New South Wales, Australia.
- (k) A reference to **\$** or **dollar** is to Australian currency.

1.3 Non-Business Days

If the day on or by which a person must do something under this document is not a Business Day:

- (a) if the act involves a payment that is due on demand, the person must do it on or by the next Business Day; and
- (b) in any other case, the person must do it on or by the previous Business Day.

2. BACKGROUND TO SCHEME

2.1 CNA

- (a) CNA is:
 - (i) a public company limited by shares incorporated in Australia;

- (ii) registered in the Australian Capital Territory; and
- (iii) admitted to the official list of ASX.

(b) As at the Second Court Date there were 86,584,735 CNA Shares on issue.

2.2 Bidco

Bidco is a company incorporated in Victoria, Australia. Bidco is not the registered holder of any CNA Shares.

2.3 ACH and Mitsubishi Development

- (a) ACH is the registered holder of 65,555,831 CNA Shares.
- (b) Mitsubishi Development is the registered holder of 8,829,288 CNA Shares.
- (c) ACH and Mitsubishi Development have each consented to the implementation of the Scheme.

2.4 What happens if Scheme becomes Effective

To facilitate this Scheme, CNA and Bidco have entered into the Scheme Implementation Agreement. If this Scheme becomes Effective then, subject to receipt of the Scheme Consideration from Bidco in accordance with the terms of this Scheme and the Deed Poll:

- (a) all CNA Shares held by the Scheme Participants will be transferred to Bidco and CNA will enter Bidco's name in the Register as the holder of all such CNA Shares;
- (b) each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their CNA Shares; and
- (c) the Scheme Consideration will be provided to Scheme Participants in accordance with the provisions of this Scheme.

2.5 Deed Poll

Bidco has executed a Deed Poll under which it covenants to carry out its obligations under this Scheme including to pay (or procure the payment of) the Scheme Consideration in accordance with the terms of this Scheme.

3. CONDITIONS PRECEDENT

3.1 Conditions precedent to this Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) all the conditions precedent set out in clause 3.2 of the Scheme Implementation Agreement (including, without limitation, the Court approving this Scheme pursuant to section 411(4)(b) of the Corporations Act), having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement;
- (b) as at 8.00 am on the Second Court Date, that neither the Scheme Implementation Agreement nor the Deed Poll has been terminated in accordance with its terms; and

- (c) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Parties to provide certificate to Court

- (a) At the hearing on the Second Court Date, CNA and Bidco must each provide to the Court a certificate confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the condition in clause 3.2(e) of the Scheme Implementation Agreement relating to Court approval of this Scheme) have been satisfied or waived.
- (b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.

4. SCHEME – SUNSET DATE

This Scheme will lapse and be of no further effect if:

- (a) the Effective Date has not occurred on or before the Sunset Date; or
- (b) the Scheme Implementation Agreement is terminated in accordance with its terms, unless CNA and Bidco otherwise agree in writing.

5. IMPLEMENTATION OF SCHEME

5.1 CNA to lodge orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(c)) are satisfied, CNA must lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as practicable after, and in any event by no later than 4.00 pm on the first Business Day following, the date on which the Court approves this Scheme or such later time as CNA and Bidco agree in writing.

5.2 Transfer of CNA Shares

On the Implementation Date, but subject to Bidco making (or procuring) the payment of the Scheme Consideration for the CNA Shares held by the Scheme Participants in the manner contemplated by clause 6.2, and Bidco having provided CNA with written confirmation thereof:

- (a) all the CNA Shares held by the Scheme Participants, together with all rights and entitlements attaching to those shares as at the Implementation Date, will be transferred to Bidco without the need for any further act by any Scheme Participant (other than acts performed by CNA or its directors and officers as attorney and agent for the Scheme Participants under this Scheme) by:
 - (i) CNA delivering to Bidco a duly completed Share Scheme Transfer executed on behalf of the Scheme Participants for execution by Bidco; and
 - (ii) Bidco duly executing the Share Scheme Transfer and delivering it to CNA for registration; and
- (b) CNA will, as soon as practicable following receipt of the duly executed Share Scheme Transfer from Bidco under clause 5.2(a)(ii), enter the name and address

of Bidco in the Register in respect of the CNA Shares held by Scheme Participants.

5.3 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer of the CNA Shares by the Scheme Participants to Bidco, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their CNA Shares in accordance with clause 6.

6. PROVISION OF SCHEME CONSIDERATION

6.1 Payment of Scheme Consideration

- (a) Within five Business Days after the Implementation Date, subject to receipt of the Scheme Consideration from Bidco in accordance with the terms of this Scheme (in particular clause 6.2) and the Deed Poll, the Account Trustee must pay to each Scheme Participant an amount equal to the Scheme Consideration in consideration for each CNA Share transferred to Bidco on the Implementation Date by that Scheme Participant in accordance with clause 5.2.
- (b) Unless otherwise directed by the Scheme Participant prior to the Scheme Record Date, the amounts referred to in clause 6.1(a) must be paid:
 - (i) if the Scheme Participant has a payment direction for an Australian bank account recorded by the Share Registry in relation to dividends that are paid by CNA as at the Scheme Record Date, then the Scheme Participant will be deemed to have authorised the payment of the Scheme Consideration by direct credit to that bank account in accordance with the direction; or
 - (ii) otherwise, by cheque drawn in Australian currency to the Scheme Participant by pre-paid post to their Registered Address as at the Scheme Record Date.
- (c) If there is any surplus in the amount held by the Account Trustee in the Trust Account, that surplus must be paid by the Trustee to Bidco following the satisfaction of the Account Trustee's obligations under this clause 6.1.
- (d) If any amount is required under any Australian law or by any Australian governmental, semi-governmental or judicial entity or authority to be:
 - (i) withheld from an amount payable under clause 6.1(a) or 6.1(c) and paid to that entity or authority; or
 - (ii) retained by the Account Trustee out of an amount payable under clause 6.1(a) or 6.1(c),

such payment or retention by the Account Trustee (or the Share Registry) will constitute the full discharge of the Account Trustee's obligations under clauses 6.1(a), 6.1(b) or 6.1(c) with respect to the amount so paid or retained until, in the case of clause 6.1(d)(ii), it is no longer required to be retained.

6.2 Bidco – deposit into Trust Account

The obligation of Bidco to pay the Scheme Consideration under clause 5.2 will be deemed to be satisfied if Bidco, before 11am on the Implementation Date, deposits (or procures the deposit) in cleared funds the aggregate Scheme Consideration payable to all Scheme Participants into an account nominated by CNA (the details of which must be notified by

CNA to Bidco at least five Business Days before the Implementation Date), such amount to be held on trust by CNA (as Account Trustee) for the Scheme Participants (except that any interest on the amount will be for the account of Bidco after the deduction of any costs, expenses or applicable taxes) and for the purpose of CNA paying the Scheme Consideration to each Scheme Participant.

6.3 Unclaimed monies

- (a) CNA or the Account Trustee may cancel a cheque or deposit issued or made under clause 6.1 if:
 - (i) it is returned to CNA; or
 - (ii) in the case of a cheque, it has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on the request from a Scheme Participant, CNA must reissue a cheque that was previously cancelled under this clause.
- (c) In the event that CNA believes that a Scheme Participant is not known at the Scheme Participant's registered address and no account has been notified for the purposes of clause 6.1(b)(i), or a deposit into such an account is rejected or refunded, CNA may credit the amount payable to the relevant Scheme Participant to a separate bank account of CNA to be held on trust by CNA for the Scheme Participant until the Scheme Participant claims the amount or the amount is dealt with in accordance with any applicable unclaimed money legislation (except that any interest accruing on the amount will be for the account of Bidco after the deduction of any costs, expenses or applicable taxes). An amount credited to the account is to be treated as having been paid to the Scheme Participant when credited to the account. CNA must maintain records of the amount paid, the people who are entitled to the amounts and any transfer of the amounts.

6.4 Joint holders

In the case of CNA Shares held by Scheme Participants in joint names, the Scheme Consideration is payable to, and must be paid to, the holder whose name appears first in the Register as at the Scheme Record Date.

7. DEALINGS IN CNA SHARES

7.1 Dealings in CNA Shares by Scheme Participants

To establish the persons who are Scheme Participants, dealings in CNA Shares will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant CNA Shares on or by the Scheme Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the Share Registry on or before 5.00pm on the Scheme Record Date (in which case CNA must register such transfers by the Scheme Record Date),

and CNA will not accept for registration, or recognise for the purpose of establishing who are Scheme Participants, any transmission application or transfer in respect of CNA Shares received after such times on the Scheme Record Date.

7.2 No disposals after Effective Date

If this Scheme becomes Effective, a Scheme Participant (and any person claiming through that holder) must not dispose of, or purport to agree to dispose of, any CNA Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

7.3 CNA to maintain Register to determine entitlements

In order to determine entitlements to the Scheme Consideration, CNA will maintain, or procure the maintenance of, the Register in accordance with this clause 7 until the Scheme Consideration has been paid to Scheme Participants and Bidco has been entered in the Register as the holder of all CNA Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.4 Holding statements no effect from Scheme Record Date

From the Scheme Record Date, all holding statements for CNA Shares (other than statements of holding in favour of Bidco or any of its Related Bodies Corporate) will cease to have effect as documents of title, and, subject to the provision of the Scheme Consideration by Bidco and registration of the transfer to Bidco contemplated in clause 5.2, each entry on the Register at the Scheme Record Date (other than entries in respect of Bidco or any of its Related Bodies Corporate) will cease to have any effect other than as evidence of the entitlements of Scheme Participants to the Scheme Consideration.

7.5 CNA to provide contact information for Scheme Participants

As soon as practicable after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, CNA will give to Bidco or procure that Bidco be given details of the name, Registered Address and the number of CNA Shares held by each Scheme Participant, as shown in the Register at the Scheme Record Date, in whatever form Bidco reasonably requires.

7.6 Suspension of trading

It is expected that the suspension of trading in CNA Shares on ASX will occur from the commencement of trading on the day on which an office copy of the Court order is lodged with ASIC under section 411(10) of the Corporations Act.

7.7 CNA to apply for termination of quotation of CNA Shares

On a date after the Implementation Date to be determined by Bidco, CNA will apply for termination of the official quotation on ASX of CNA Shares and must apply to have itself removed from the official list of ASX.

8. GENERAL PROVISIONS

8.1 Appointment of CNA as agent and attorney

- (a) Each Scheme Participant, without the need for any further act, irrevocably appoints CNA as its agent and attorney for the purpose of:
 - (i) executing any document or doing any other act necessary, expedient or incidental to give full effect to this Scheme and the transactions contemplated by it, including the Share Scheme Transfer; and
 - (ii) enforcing the Deed Poll against Bidco,

and CNA accepts such appointment.

- (b) CNA, as agent of each Scheme Participant, may sub-delegate its functions, authorities or powers under this clause 8.1 to all or any of its directors and officers (jointly, severally or jointly and severally).

8.2 Scheme Participants' consent

Each Scheme Participant irrevocably consents to CNA and Bidco doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, expedient or incidental to give full effect to this Scheme and the transactions contemplated by it.

8.3 Scheme Participant's agreements

Under this Scheme, each Scheme Participant agrees to the transfer of their CNA Shares, together with all rights and entitlements attaching to those CNA Shares and agrees to the variation, cancellation or modification of the rights attached to their CNA Shares constituted by or resulting from this Scheme, to Bidco, in accordance with the terms of this Scheme.

8.4 Warranty by Scheme Participants

Each Scheme Participant is deemed to have warranted to Bidco, in its own right and for the benefit of Bidco as agent and attorney for the Scheme Participant by virtue of this clause, that:

- (a) all of their CNA Shares (including any rights and entitlements attaching to those CNA Shares) will, as at the time of the transfer of them to Bidco under this Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and from any restrictions on transfer of any kind; and
- (b) they have full power and capacity to sell and to transfer their CNA Shares (including any rights and entitlements attaching to those shares) to Bidco under this Scheme.

8.5 Transfer free of encumbrances

To the extent permitted by law, all CNA Shares held by Scheme Participants (including any rights and entitlements attaching to those shares) which are transferred to Bidco under this Scheme will, as at the date of transfer of them to Bidco, vest in Bidco free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

8.6 Title to CNA Shares

Subject to the provision of the Scheme Consideration for the CNA Shares in the manner contemplated by clauses 5.3 and 6, on and from the Implementation Date and pending registration by CNA of Bidco in the Register as holder of all of the CNA Shares, Bidco will be beneficially entitled to all of the CNA Shares transferred to it under this Scheme.

8.7 Appointment of Bidco as sole proxy

On and from the Implementation Date but subject to Bidco satisfying its obligation under clause 6.2, and pending registration by CNA of Bidco in the Register as the holder of all of the CNA Shares held by the Scheme Participants, each Scheme Participant:

- (a) is deemed to have irrevocably appointed Bidco as its attorney and agent (and directed Bidco in such capacity) to appoint any director, secretary or agent

nominated by Bidco as its sole proxy and, where applicable, corporate representative, to attend shareholders' meetings of CNA, exercise the votes attached to the CNA Shares registered in their name and sign any shareholders' resolutions, whether in person, by proxy or by corporate representative;

- (b) must not attend or vote at any shareholders' meetings of CNA, or sign any resolutions, whether in person, by proxy or by corporate representative, other than in accordance with this clause 8.7;
- (c) must take all other actions in the capacity of the registered holder of the CNA Shares as Bidco directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in this clause 8.7, Bidco and any director, officer, secretary or agent nominated by Bidco under this clause 8.7 may act in the best interests of Bidco as the intended registered holder of the CNA Shares.

8.8 Special Dividend

If CNA announces that a dividend will be paid and that dividend will satisfy each of the requirements of paragraphs (a) to (e) of the definition of Special Dividend then CNA will pay the dividend on a date being not later than 5 Business Days after the Implementation Date.

8.9 Alteration or conditions to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions, CNA may, by its counsel or solicitors, but subject to the prior written approval of Bidco, consent on behalf of all persons concerned, including each Scheme Participant, to those alterations or conditions.

8.10 Scheme is binding

This Scheme binds CNA and all Scheme Participants (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against this Scheme) and, to the extent of any inconsistency and, to the extent permitted by law, overrides the constitution of CNA.

8.11 Enforcement of Deed Poll

CNA undertakes in favour of each Scheme Participant to enforce the Deed Poll against Bidco on behalf of and as agent and attorney for the Scheme Participants.

8.12 Notices

- (a) Where a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to CNA, it will be deemed to be received on the date (if any) on which it is actually received at CNA's registered office and on no other date.
- (b) The accidental omission to give notice of the Scheme Meeting to, or the non-receipt of such notice by, any CNA Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8.13 Further assurances

CNA will execute all documents and do all acts and things (on its own behalf and on behalf of each Scheme Participant) as may be necessary or desirable to give full effect to this Scheme and the transactions contemplated by it.

8.14 Stamp duty

Bidco will pay all stamp duty (including any fines, penalties and interest) payable on the transfer by the Scheme Participants of the CNA Shares to Bidco.

8.15 Governing law

- (a) This document is governed by the law in force in New South Wales, Australia.
- (b) Each party submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales, Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this document, and waives any right it might have to claim that those courts are an inconvenient forum.

8.16 No Liability when acting in good faith

Neither CNA nor Bidco nor any director, officer or secretary of any of those companies will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

For personal use only

ATTACHMENT C

Deed Poll

Attachment C. Deed Poll

Deed Poll

By **Hunter Valley Resources Pty Ltd**
(ACN 151 471 242) in favour of each
Scheme Participant

Blake Dawson

Level 36, Grosvenor Place
225 George Street
Sydney NSW 2000
Australia
T 61 2 9258 6000
F 61 2 9258 6999

Reference
JTL AUB 02 1422 5560
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Blake Dawson

Deed Poll

DATE

19th October 2011

PARTIES

Hunter Valley Resources Pty Ltd (ACN 151 471 242) (**Bidco**)

in favour of each Scheme Participant

RECITALS

- A. On 26 August 2011, Coal & Allied Industries Limited (ACN 008 416 760) (**CNA**) and Bidco entered into a scheme implementation agreement (**Scheme Implementation Agreement**).
- B. Bidco is entering into this document for the purpose of covenanting in favour of the Scheme Participants to perform its obligations under the Scheme Implementation Agreement and the Scheme.

OPERATIVE PROVISIONS

1. INTERPRETATION

1.1 Definitions

- (a) In this document, **Scheme** means the proposed scheme of arrangement under Part 5.1 of the Corporations Act between CNA and the Scheme Participants that is contemplated by the Scheme Implementation Agreement.
- (b) Terms that are not defined in this document and that are defined in the Scheme have the same meaning in this document as given to the term in the Scheme, unless the context makes it clear that a definition is not intended to apply.
- (c) Terms that are not defined in either this document or the Scheme but are defined in the Scheme Implementation Agreement have the same meaning in this document as given to the term in the Scheme Implementation Agreement, unless the context makes it clear that a definition is not intended to apply.

1.2 Rules for interpreting this document

The rules specified in clause 1.2 of the Scheme applies to the interpretation of this document, unless the context makes it clear that a rule is not intended to apply.

2. SCHEME PARTICIPANTS MAY RELY ON THIS DOCUMENT

Bidco acknowledges that this document may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it.

Blake Dawson

3. CONDITIONS PRECEDENT AND TERMINATION

3.1 Conditions Precedent

Bidco's obligations under clause 5 are subject to the Scheme becoming Effective.

3.2 Termination

Bidco's obligations under this document will automatically terminate and the terms of this document will be of no further force or effect if:

- (a) the Scheme Implementation Agreement is terminated in accordance with its terms; or
 - (b) the Scheme does not become Effective by the Sunset Date,
- unless CNA and Bidco otherwise agree in writing.

3.3 Consequences of Termination

If this document is terminated under clause 3.2 then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Bidco is released from its obligations to further perform this document except those obligations contained in clause 10.2; and
- (b) each Scheme Participant retains any rights, powers or remedies it has against Bidco in respect of any breach which occurred before this document is terminated.

4. PERFORMANCE OF OBLIGATIONS GENERALLY

Bidco will comply with its obligations under the Scheme subject to and in accordance with the terms of the Scheme.

5. PAYMENT OF SCHEME CONSIDERATION

5.1 Scheme Consideration

Subject to clause 3, Bidco undertakes in favour of each Scheme Participant to pay, or procure payment of, the aggregate amount of the Scheme Consideration payable to all Scheme Participants in cleared funds into the Trust Account.

5.2 Manner of Payment

The obligation of Bidco to pay the Scheme Consideration under clause 5.1 will be deemed to be satisfied if Bidco, before 11am on the Implementation Date, deposits (or procures the deposit) in cleared funds the aggregate Scheme Consideration payable to all Scheme Participants into an account nominated by CNA (the details of which must be notified by CNA to Bidco at least five Business Days before the Implementation Date), such amount to be held on trust by CNA (as Account Trustee) for the Scheme Participants (except that any interest on the amount will be for the account of Bidco after the deduction of any costs, expenses or applicable taxes) and for the purpose of CNA paying the Scheme Consideration to each Scheme Participant.

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6. REPRESENTATIONS AND WARRANTIES

Bidco represents and warrants that:

- (a) **(status)** it is a company validly existing under the laws of its place of incorporation;
- (b) **(power)** it has full legal capacity and power to:
 - (i) own its property and to carry on its business; and
 - (ii) enter into this document and to carry out the transactions that this document contemplates;
- (c) **(corporate authority)** it has taken all corporate action that is necessary or desirable to authorise its entry into this document and its carrying out the transactions this document contemplates; and
- (d) **(documents effective)** this document constitutes its legal, valid and binding obligations, enforceable against it in accordance with its terms (except to the extent limited by equitable principles and laws affecting creditor's rights generally) subject to any necessary stamping.
- (e) **(transactions permitted)** the execution and performance by it of this document and each transaction contemplated by this document did not and will not violate in any respect a provision of:
 - (i) a law, judgment, ruling, order or decree binding on it; or
 - (ii) its constitution or other constituent documents.
- (f) **(solvency)** as at the date of this document, it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.
- (g) **(regulatory action)** as at the date of this document and so far as it is aware, no regulatory action of any nature has been taken which would prevent, inhibit or otherwise have a material adverse effect on its ability to fulfil its obligations under this document.

7. CONTINUING OBLIGATIONS

This document is irrevocable and, subject to clause 3, remains in full force and effect until:

- (a) Bidco has fully performed its obligations under this document; or
- (b) the earlier termination of this document under clause 3.2.

8. NOTICES

8.1 How to give a notice

A notice, consent or other communication under this document is only effective if it is:

- (a) in writing, signed by or on behalf of the person giving it;
- (b) addressed to the person to whom it is to be given; and

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(c) either:

- (i) delivered or sent by pre-paid mail (by airmail, if the addressee is overseas) to that person's address;
- (ii) sent by fax to that person's fax number and the machine from which it is sent produces a report that states that it was sent in full.

8.2 When a notice is given

A notice, consent or other communication that complies with this clause is regarded as given and received:

(a) if it is delivered or sent by fax:

- (i) by 5.00 pm (local time in the place of receipt) on a Business Day – on that day; or
- (ii) after 5.00 pm (local time in the place of receipt) on a Business Day, or on a day that is not a Business Day – on the next Business Day;

(b) if it is sent by mail:

- (i) within Australia – three Business Days after posting; or
- (ii) to or from a place outside Australia – seven Business Days after posting.

8.3 Address for notices

A person's mail and email address and fax number are those set out below, or as the person notifies the sender:

Bidco

Address: Level 36, 50 Bridge Street, Sydney, NSW 2000
 Fax number: +61 2 9951 4935
 Attention: Deanna Constable
 with a copy by email to deanna.constable@mdp.mitsubishicorp.com

AND

Address: c/-Rio Tinto, 123 Albert Street, Brisbane, QLD 4000
 Fax number: +61 7 3625 3001
 Attention: Mark Pisarek
 with a copy by email to Mark.Pisarek@riotinto.com

9. AMENDMENT AND ASSIGNMENT**9.1 Amendment**

A provision of this document may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by CNA; or
- (b) on or after the Second Court Date, the variation is agreed to in writing by CNA and is approved by the Court;

and

- (c) Bidco enters into a further deed poll in favour of Scheme Participants giving effect to that amendment.

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9.2 Assignment

The rights and obligations of Bidco and each Scheme Participant under this document are personal. They cannot be assigned, encumbered, charged or otherwise dealt with at law or in equity without the prior written consent of Bidco, and no person shall attempt or purport to do so. Any purported dealing in contravention of this clause 9.2 is invalid.

10. GENERAL**10.1 Governing law**

- (a) This document is governed by the law in force in New South Wales, Australia.
- (b) Bidco submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales, Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this document, and waives any right it might have to claim that those courts are an inconvenient forum.

10.2 Stamp duty

Bidco will:

- (a) pay all stamp duty (including fines, penalties and interest) on or in connection with this document, the performance of this document and each transaction effected by or made, or any instrument executed, under this document (including the transfer of the CNA Shares to Bidco); and
- (b) indemnify each Scheme Participant on demand against any liability arising from failure to comply with clause 10.2(a).

10.3 Waiver of rights

- (a) A right may only be waived in writing, signed by the party giving the waiver, and:
 - (i) no other conduct of a party (including a failure to exercise, or delay in exercising, the right) operates as a waiver of the right or otherwise prevents the exercise of the right;
 - (ii) a waiver of a right on one or more occasions does not operate as a waiver of that right if it arises again; and
 - (iii) the exercise of a right does not prevent any further exercise of that right or of any other right.

10.4 Operation of this document

- (a) Any right that a person may have under this document is in addition to, and does not replace or limit, any other right that the person may have.
- (b) Any provision of this document which is unenforceable or partly unenforceable is, where possible, to be severed to the extent necessary to make this document enforceable, unless this would materially change the intended effect of this document.

10.5 Further Assurances

Bidco will execute all deeds and other documents and do all acts and things (on its own behalf or on behalf of each Scheme Participant) as may be necessary or desirable to give full effect to this document and the transactions contemplated by it.

Blake Dawson

10.6 Cumulative Rights

The rights, powers and remedies of Bidco and of each Scheme Participant under this document are cumulative and do not exclude any other rights, powers or remedies provided by law or equity independently of this document.

Blake Dawson

EXECUTED as a deed poll.

EXECUTED by Hunter Valley Resources
Pty Ltd:

Signature of directorDEANNA MAREE CONSTABLE
Name

Signature of director/secretaryGRAHAM JOHN REID
Name

ATTACHMENT D

Notice of General Meeting

For personal use only

Attachment D. Notice of General Meeting

NOTICE OF GENERAL MEETING – COAL & ALLIED INDUSTRIES LIMITED ACN 008 416 760

Notice is hereby given that a general meeting of the holders of ordinary shares in Coal & Allied Industries Limited ACN 008 416 760 will be held:

At – Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW 2000

On – 28 November 2011 at 10.00am

BUSINESS OF THE MEETING

Section 611 Item 7 Resolution

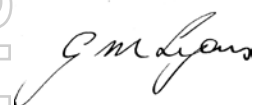
Coal & Allied Shareholders are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, for the purposes of section 611, item 7, of the Corporations Act, and as outlined in the Scheme Booklet accompanying this Notice of General Meeting, approval is given for the acquisition by ACH, Hunter Valley Resources and Mitsubishi Development (and their respective related bodies corporate) of relevant interests in Coal & Allied Shares arising out of:

- *the Framework Agreement between ACH, Mitsubishi Development and Hunter Valley Resources dated 26 August 2011; and*
- *the Shareholders Agreement between ACH, Mitsubishi Development and Hunter Valley Resources dated 26 August 2011,*

both as more particularly summarised in the Scheme Booklet of which this Notice of General Meeting forms part."

BY ORDER OF THE COAL & ALLIED BOARD



Gillian Lyons
Company Secretary
24 October 2011

NOTES TO THE NOTICE OF GENERAL MEETING

Explanatory notes

These notes should be read in conjunction with the Notice of General Meeting and the information in the scheme booklet of which that notice forms part (**Scheme Booklet**).

Unless the context requires otherwise, terms used in the Notice of General Meeting and in these notes have the same meaning as set out in the glossary in the Scheme Booklet.

Required majority

The Section 611 Item 7 Resolution must be approved by more than 50% of the votes cast at the General Meeting by Coal & Allied Shareholders entitled to vote.

Entitlement to vote

For the purposes of the General Meeting, Coal & Allied has determined that the time for determining the eligibility to vote at the meeting is 7.00pm on 26 November 2011. Only those Coal & Allied Shareholders entered on the Coal & Allied Register at that time will be entitled to attend and vote at the General Meeting (subject to the voting exclusions in the notice).

ACH, Mitsubishi Development or associates of each or both of them who hold Coal & Allied Shares may not cast votes in favour of the Section 611 Item 7 Resolution.

Voting will be conducted by poll.

Voting at the meeting

You may vote in person at the General Meeting or appoint a proxy, attorney or, if you are a body corporate, a corporate representative to attend and vote on your behalf.

(a) Voting in person

To vote in person, attend the General Meeting on the date and at the place set out in the Notice of General Meeting.

(b) Voting by proxy

A Coal & Allied Shareholder entitled to attend and vote at the General Meeting can vote by proxy. The General Proxy Form is enclosed with the Scheme Booklet.

You may appoint not more than two proxies to attend and act for you at the General Meeting. A proxy need not be Coal & Allied Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, you will be taken (for all relevant purposes) to have given your proxy discretion as to how to vote and your proxy may vote as he or she sees fit at the General Meeting.

Coal & Allied Shareholders who return their General Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the General Meeting as their proxy to vote on their behalf.

If a General Proxy Form is returned but the nominated proxy does not attend the General Meeting, the Chairman of the General Meeting will act in place of the nominated proxy and vote in accordance with any instructions.

Instructions on how to complete and lodge the General Proxy Form are included on the form. Please note that the General Proxy Form must be received by the Coal & Allied Registry, whose details are listed below, by no later than 10.00am on 26 November 2011. If you have an attorney sign a General Proxy Form on your behalf, the original or a certified copy of the power of attorney or other evidence of your attorney's authority must be received by the Coal & Allied Registry at the same time as the General Proxy Form (unless previously provided to the Coal & Allied Registry).

A proxy will be admitted to the General Meeting upon providing evidence of their name and address at the point of entry to the meeting.

Coal & Allied Shareholders who have returned a Proxy Form may revoke the proxy by attending and voting at the relevant Meeting.

(c) Voting by attorney

Powers of attorney must be received by the Coal & Allied Registry by no later than 10.00am on 26 November 2011.

Persons attending the General Meeting as an attorney should bring to the General Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the General Meeting.

(d) Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the General Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the General Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

(e) Jointly held securities

If Coal & Allied Shares are jointly held, either one of the joint shareholders is entitled to vote at the General Meeting. If more than one joint shareholder votes in respect of jointly held shares, only the vote of the shareholder whose name appears first in the Coal & Allied Register will be counted.

(f) Lodgement of proxies

There are a number of ways that General Proxy Forms may be lodged:

Method	Instructions
Mail	Sent to the Coal & Allied Registry (using the reply paid envelope included with this Scheme Booklet), addressed to Computershare Investor Services Pty Ltd at GPO Box 242, Melbourne Victoria 3001.
Hand delivery	Delivered during business hours to the Coal & Allied Registry at Computershare Investor Services Pty Ltd, Level 4, 60 Carrington Street, Sydney NSW 2000.
Fax	Sent to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).
Online	Lodged at www.investorvote.com.au or, for Intermediary Online subscribers only (custodians), at www.intermediaryonline.com

An instrument appointing a proxy shall not be valid unless the original instrument and the power of attorney or other authority (if any) under which the instrument is signed, or a copy or facsimile which appears on its face to be an authentic copy of that proxy, power or authority, is or are deposited or sent by fax to the Coal & Allied Registry by no later than 10.00am on 26 November 2011.

Coal & Allied Shareholders should contact the Coal & Allied Registry on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday with any queries regarding the number of Coal & Allied Shares they hold, how to vote at the General Meeting or how to lodge the General Proxy Form.

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ATTACHMENT E

Notice of Scheme Meeting

Attachment E. Notice of Scheme Meeting

NOTICE OF COURT ORDERED MEETING – COAL & ALLIED INDUSTRIES LIMITED ACN 008 416 760

Notice is hereby given that, by an order of the Federal Court of Australia made on 21 October 2011 pursuant to section 411(1) of the Corporations Act, a meeting of the holders of ordinary shares in Coal & Allied Industries Limited ACN 008 416 760 (other than Excluded Shareholders) will be held:

At – Sofitel Wentworth, 61-101 Phillip Street. Sydney NSW 2000

On – 28 November 2011, immediately following the conclusion of the General Meeting that has been convened to be held at 10.00am on 28 November 2011.

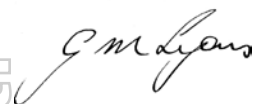
The Court has directed that Christopher Renwick or, failing him, Bryan Davis, acts as chairman of the meeting.

BUSINESS OF THE MEETING – SCHEME RESOLUTION

To consider and, if thought fit, to pass the following resolution:

"That, pursuant to and in accordance with section 411 of the Corporations Act, the proposed scheme of arrangement between Coal & Allied and the holders of its fully paid ordinary shares (other than Excluded Shareholders), the terms of which are contained and more particularly described in the Scheme Booklet of which this Notice of Scheme Meeting forms part, is approved (with or without modification as approved by the Federal Court of Australia)."

BY ORDER OF THE COURT



Gillian Lyons
Company Secretary
24 October 2011

NOTES TO THE NOTICE OF SCHEME MEETING

Explanatory notes

Information on the Scheme is set out in the scheme booklet of which this notice forms part (**Scheme Booklet**).

These notes should be read in conjunction with the Notice of Scheme Meeting.

Unless the context requires otherwise, terms used in the Notice of Scheme Meeting and in these notes have the same meaning as set out in the glossary in the Scheme Booklet.

Required majorities

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be approved by:

- a majority in number (i.e. more than 50%) of Coal & Allied Shareholders present and voting at the Scheme Meeting (whether in person or by proxy, attorney or, in the case of a body corporate, corporate representative); and
- at least 75% of the votes cast on the Scheme Resolution.

Entitlement to vote

The Court has ordered that, for the purposes of the Scheme Meeting, the time for determining eligibility to vote at the meeting is 7.00pm on 26 November 2011. Only those Coal & Allied Shareholders (other than Excluded Shareholders) entered on the Coal & Allied Register at that time will be entitled to attend and vote at the Scheme Meeting.

Voting will be conducted by poll.

Voting at the meeting

You may vote in person at the Scheme Meeting or appoint a proxy, attorney or, if you are a body corporate, a corporate representative to attend and vote on your behalf.

(a) Voting in person

To vote in person, attend the Scheme Meeting on the date and at the place set out in the Notice of Scheme Meeting.

(b) Voting by proxy

A Coal & Allied Shareholder entitled to attend and vote at the Scheme Meeting can vote by proxy. The Scheme Proxy Form is enclosed with the Scheme Booklet.

You may appoint not more than two proxies to attend and act for you at the Scheme Meeting. A proxy need not be a Coal & Allied Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, you will be taken (for all relevant purposes) to have given your proxy discretion as to how to vote and your proxy may vote as he or she sees fit at the Scheme Meeting.

Coal & Allied Shareholders who return their Scheme Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chair of the Scheme Meeting as their proxy to vote on their behalf. If a Scheme Proxy Form is returned but the nominated proxy does not attend the Scheme Meeting, the Chair of the Scheme Meeting will act in place of the nominated proxy and vote in accordance with any instructions.

Instructions on how to complete and lodge the Scheme Proxy Form are included on the form. Please note that the Scheme Proxy Form must be received by the Coal & Allied Registry, whose details are listed below, by no later than 10.00am on 26 November 2011. If you have an attorney sign a Scheme Proxy Form on your behalf, the original or a certified copy of the power of attorney or other evidence of your attorney's authority must be received by the Coal & Allied Registry at the same time as the Scheme Proxy Form (unless previously provided to the Coal & Allied Registry).

A proxy will be admitted to the Scheme Meeting upon providing evidence of their name and address at the point of entry to the meeting.

Coal & Allied Shareholders who have returned a Proxy Form may revoke the proxy by attending and voting at the relevant Meeting.

(a) Voting by attorney

Powers of attorney must be received by the Coal & Allied Registry by no later than 10.00am on 26 November 2011.

Persons attending the Scheme Meeting as an attorney should bring to the Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

(b) Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Scheme Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

(c) Jointly held securities

If Coal & Allied Shares are jointly held, either one of the joint shareholders is entitled to vote at the Scheme Meeting. If more than one joint shareholder votes in respect of jointly held shares, only the vote of the shareholder whose name appears first in the Coal & Allied Register will be counted.

Lodgement of proxies

There are a number of ways that the Scheme Proxy Forms may be lodged:

Method	Instructions
Mail	Sent to the Coal & Allied Registry (using the reply paid envelope included with the Scheme Booklet), addressed to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne Victoria 3001.
Hand delivery	Delivered during business hours to the Coal & Allied Registry at Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000.
Fax	Sent to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).
Online	Lodged at www.investorvote.com.au or, for Intermediary Online subscribers only (custodians), at www.intermediaryonline.com

An instrument appointing a proxy shall not be valid unless the original instrument and the power of attorney or other authority (if any) under which the instrument is signed, or a copy or facsimile which appears on its face to be an authentic copy of that proxy, power or authority, is or are deposited or sent by fax to the Coal & Allied Registry by no later than 10.00am on 26 November 2011.

Coal & Allied Shareholders should contact the Coal & Allied Registry on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) at any time between 9.00am and 5.00pm on Monday to Friday with any queries regarding the number of Coal & Allied Shares they hold, how to vote at the Scheme Meeting or how to lodge the Scheme Proxy Form.

Conditions

If the Scheme Resolution is approved at the Scheme Meeting by the requisite majorities, the implementation of the Scheme (with or without modification) will be subject to:

- the subsequent approval of the Court under section 411(4)(b) of the Corporations Act; and
- the satisfaction or (if applicable) waiver of all other Scheme Conditions.

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Managed by Rio Tinto Coal Australia

The Directors
Coal & Allied Industries Limited
123 Albert Street
Brisbane Qld 4000

21 October 2011

Subject: Proposed acquisition by way of Scheme

Dear Directors

Introduction

- 1 On 8 August 2011 Coal & Allied Industries Limited (Coal & Allied) announced that on 6 August 2011 it had received an incomplete, non-binding, conditional and indicative proposal from Rio Tinto Limited (Rio Tinto) which could lead to a takeover offer being made to acquire all the outstanding shares in Coal & Allied not held by Rio Tinto and Mitsubishi Development Pty Ltd (Mitsubishi Development). The indicative proposal contemplated an offer of A\$122.00 cash for each Coal & Allied share not owned by either Rio Tinto or Mitsubishi Development.
- 2 Subsequently, on 26 August 2011 Coal & Allied announced that it had executed a Scheme Implementation Agreement (the Agreement) with Rio Tinto and Mitsubishi Development¹, under which it is proposed that Coal & Allied shareholders other than Rio Tinto and Mitsubishi Development² will have their shares acquired by Hunter Valley Resources Pty Ltd (Hunter Valley Resources) by way of a Scheme of Arrangement (the Scheme). The Scheme is subject to a number of conditions precedent, as summarised in Section I of our report.
- 3 If the Scheme is approved and implemented, Coal & Allied shareholders will receive A\$125.00 cash for each Coal & Allied share they hold on the Scheme Record Date³, less the cash amount of any Special Dividend which Coal & Allied announces before the Scheme Record Date.
- 4 Under the Agreement, Coal & Allied intends to pay a fully franked Special Dividend of up to A\$8.00 per Coal & Allied share, subject to the necessary approvals for the Scheme being obtained and Coal & Allied obtaining a ruling from the ATO. Should a Special Dividend of A\$8.00 per Coal & Allied share be paid the cash consideration payable under the Scheme will be reduced to A\$117.00 per share.

¹ The Agreement has been entered into between Coal & Allied and Hunter Valley Resources Pty Ltd, an entity jointly owned by Rio Tinto and Mitsubishi Development.

² For ease of reporting we have referred to "Coal & Allied shareholders other than Rio Tinto and Mitsubishi Development" as "Coal & Allied shareholders" in the remainder of our report.

³ The Scheme Record Date is presently expected to be 7:00pm on the seventh business day after the Scheme becomes effective.

- 5 Coal & Allied shareholders will therefore receive a total of A\$125.00 cash per share if the Scheme is implemented regardless of whether a Special Dividend is paid. The proposed transaction values all the shares in Coal & Allied (on a fully diluted basis) at approximately A\$10.8 billion.
- 6 The Scheme is subject to (among other things) the Court convening a meeting of Coal & Allied shareholders. Under the *Corporations Act 2001 (Cth)* (Corporations Act), the Scheme is approved by Coal & Allied shareholders if a resolution in favour of the Scheme is passed by a majority in number of the Coal & Allied shareholders present and voting at the Scheme meeting (in person or by proxy), and by 75% of the votes cast on the resolution⁴. If this occurs a second Court hearing will be held to approve the Scheme, which if approved, will become binding on all Coal & Allied shareholders who hold Coal & Allied shares as at the Scheme Record Date, irrespective of whether or not they voted for the Scheme.

Key transaction participants

Coal & Allied

- 7 Coal & Allied is a major coal producer in the Hunter Valley region of New South Wales (NSW). The company employs more than 3,200 people across its three existing mine operations, Hunter Valley Operations (HVO), Mount Thorley Warkworth (MTW) and Bengalla. Current projects include Mount Pleasant in respect of which a full feasibility study is underway. Coal & Allied is managed by Rio Tinto Coal Australia Pty Limited (RTCA), a wholly owned subsidiary of Rio Tinto.

Rio Tinto

- 8 Rio Tinto is a leading international mining group, combining Rio Tinto Plc, a London listed public company headquartered in the United Kingdom (UK), and Rio Tinto Limited, which is listed on the Australian Securities Exchange (ASX), with executive offices in Melbourne. Rio Tinto's interests are diverse both in geography and product. The majority of the group's assets are in Australia and North America, with operations also situated in Europe, South America, Asia and Africa. Operating businesses include open pit and underground mines, mills, refineries and smelters, as well as a number of research and service facilities. Rio Tinto currently owns 75.7% of Coal & Allied shares.

Mitsubishi Development

- 9 Mitsubishi Development is a wholly owned subsidiary of the Japanese trading and investment company, Mitsubishi Corporation. With offices in Sydney, Perth and Brisbane, Mitsubishi Development is engaged in resource equity management with a focus on iron ore, metallurgical coal, thermal coal and uranium investments in Australia. Mitsubishi Corporation is engaged in a broad range of businesses through its trading activities and investments, which business areas include energy, metals, machinery, chemicals, food, general merchandise, automotive tooling, equipment and materials and business development. Mitsubishi Development currently owns 10.2% of Coal & Allied shares.

⁴ Neither Rio Tinto or Mitsubishi Development can vote on any of the resolutions to implement the Scheme.

Purpose of report

- 10 As Rio Tinto and Mitsubishi Development collectively hold 74.4 million shares in Coal & Allied (representing 85.9% of the ordinary shares on issue) and together have three directors on the Coal & Allied Board, there is a regulatory requirement for an independent expert's report (IER) to be prepared for Coal & Allied shareholders pursuant to s411 of the Corporations Act, and Regulation 5.1.01 and Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Corporations Regulations).
- 11 In addition, the Recommending Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of Coal & Allied shareholders (and there being no superior proposal).
- 12 Accordingly, the Proposal Response Committee⁵ have requested that LonerGAN Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) and the reasons for that opinion.
- 13 LEA is independent of Coal & Allied, Rio Tinto and Mitsubishi Development and has no other involvement or interest in the proposed Scheme.

Summary of opinion

- 14 In our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal. We have formed this opinion for the following reasons.

Valuation of Coal & Allied

- 15 Given the finite life of mining operations and the expectation of increasing coal production over time we have selected the discounted cash flow (DCF) methodology as the primary methodology when valuing Coal & Allied.
- 16 Our assessed value of Coal & Allied shares on a 100% controlling interest basis is summarised below:

Coal & Allied – valuation of 100% controlling interest		
	Low A\$m	High A\$m
Value of coal mining interests ⁽¹⁾	9,300	10,700
Present value of corporate costs	(170)	(140)
Enterprise value	9,130	10,560
Investment in PWCS ⁽²⁾	280	320
Other assets (including net cash)	220	235
Value of equity	9,630	11,115
Shares on issue (m)	86.6	86.6
Value per share (A\$)	\$111.20	\$128.35

⁵ The Proposal Response Committee comprises three Directors of Coal & Allied and was formed to respond to the initial proposal from Rio Tinto and the Scheme.

Note:

- 1 Representing the value of Coal & Allied's interests in the HVO, MTW and Bengalla operating mines, the Mount Pleasant development project and the Oaklands project.
- 2 PWCS – Port Waratah Coal Services.

Sensitivity analysis

- 17 The value of Coal & Allied shares is particularly sensitive to the coal price, foreign exchange rate and discount rate assumptions selected. However, it should be noted that there is a strong correlation between the AUD:USD exchange rate and USD commodity prices. In the long-term it is therefore unlikely that high USD coal prices will occur at times of low AUD:USD exchange rates or that low USD coal prices will occur at times of high AUD:USD exchange rates. Accordingly, we believe it is more appropriate to show the sensitivity in value to movements in the coal price implied in AUD terms.
- 18 We have therefore applied the following sensitivities to our values:
 - (a) discount rates ranging +/- 0.25% and 0.5%
 - (b) coal prices +/- A\$2.50, A\$5 and A\$10 per tonne (inflation adjusted from 2017).
- 19 A summary of these sensitivities is set out below:

Sensitivity of Coal & Allied share value to coal prices and discount rates (A\$ value per share)					
Discount rate	-0.50%	-0.25%	Base rates	+0.25%	+0.50%
	A\$	A\$	A\$	A\$	A\$
Coal pricing scenarios:					
Plus A\$10 per tonne	153.83	150.10	146.51	143.06	139.74
Plus A\$5 per tonne	140.00	136.58	133.30	130.14	127.10
Plus A\$2.50 per tonne	132.88	129.64	126.51	123.51	120.62
Mid-point of A\$ coal prices adopted	125.74	122.66	119.78	116.84	114.10
Minus A\$2.50 per tonne	118.56	115.65	112.85	110.15	107.56
Minus A\$5 per tonne	111.37	108.63	105.98	103.44	101.00
Minus A\$10 per tonne	96.92	94.51	92.19	89.96	87.82

Note:

- 1 As set out in Section VI of this report the mid-point base case long-term coal prices, foreign exchange rate and discount rates are as follows; semi-soft coking coal US\$130/t, thermal coal US\$104/t, AUD:USD exchange rate 0.84 and discount rates of 10.6% per annum for the HVO, MTW and Bengalla operating mines and 12.1% per annum for the Mount Pleasant development project.

- 20 Consistent with coal projects generally (where output is primarily for export purposes), the table above highlights that movements in the AUD coal price forecasts have the ability to significantly impact the value of Coal & Allied, both positively and negatively.

Saleable coal production

- 21 Coal & Allied's share of saleable coal production in the years ended 31 December 2009 and 2010 and in the six months ended 30 June 2011 was 18.9 million tonnes (Mt), 18.8Mt and 9.9Mt respectively. Consistent with AMC Consultants Pty Ltd (AMC) advice (and Coal & Allied plans) our valuation model assumes production is increased to between 39Mt per annum (Mtpa) and 45Mtpa over the period to 2040. Coal & Allied's share of saleable coal production adopted for valuation purposes in the short to medium term, and over the period to 2040, is summarised below:

Coal & Allied share of saleable coal production									
	3mths								Total to
Year to 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2040 ⁽²⁾
	Mt	Mt	Mt	Mt	Mt	Mt	Mt	Mt	Mt
Saleable coal production	5.3 ⁽¹⁾	24.7	25.7	32.8	38.8	38.5	39.1	39.5	1,163.2

Note:

- 1 Represents estimated production for three months to 31 December 2011.
2 Total for 2011 to 2040 period.

- 22 Total saleable coal production over the period to 31 December 2040 exceeds presently proven and probable marketable reserves. However, in our opinion, the above production figures are appropriate having regard to the substantial level of measured and indicated resources at each mine (and available port capacity allocations).

Coal prices

- 23 A summary of the coal types currently mined and expected to be produced by Coal & Allied are set out below:

Coal & Allied – coal types produced	
Mine	Coal type
Hunter Valley Operations (HVO)	Thermal coal / semi-soft coking coal
Mount Thorley Warkworth (MTW)	Thermal coal / semi-soft coking coal
Bengalla	Thermal coal
Mount Pleasant	Thermal coal

- 24 We set out below the benchmark prices for semi-soft coking coal and thermal coal adopted for valuation purposes. These prices were assessed based on our detailed review of analyst coal price forecasts, futures markets and other factors as set out in Appendix C:

Benchmark coal prices adopted for valuation purposes (FOB US\$/tonne in nominal terms)						
	3 mths to 31 Dec 11	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast ⁽²⁾ Long-term
Low case:						
Semi-soft coking coal	200 ⁽¹⁾	185	160	145	135	125
Thermal coal	130 ⁽¹⁾	125	120	110	105	100
High case:						
Semi-soft coking coal	200 ⁽¹⁾	200	173	157	146	135
Thermal coal	130 ⁽¹⁾	135	130	119	113	108
Semi-soft coking coal price premiums over thermal coal prices						
Low and high cases	54%	48%	33%	32%	29%	25%

Note:

- 1 Thermal coal prices reflect actual contract prices and semi-soft coking coal prices reflect estimated actual prices.
- 2 The long-term price is expressed in 2016 dollar terms (and is assumed to be maintained in real terms).

- 25 As noted above the USD coal prices are projected to decline reflecting, in part, expectations of increased coal supply over the medium to long-term which will alleviate some of the current demand and supply imbalance. The above projections also assume the price premium for semi-soft coal above thermal coal prices reduces over time to longer term historical levels (as the current tight market conditions for metallurgical coal subsides).

Foreign currency rates

- 26 The Australian dollar and United States dollar (AUD:USD) exchange rates adopted for valuation purposes reflect a blended analysis of forward market estimates and long-term (and in some instances short-term) historical foreign exchange trends, and are shown below:

AUD:USD exchange rate assumptions						
	3 mths to 31 Dec 11	2012	2013	2014	2015	Long-term
Low	1.00	0.96	0.92	0.88	0.85	0.82
High	1.04	1.00	0.96	0.92	0.89	0.86

- 27 We note that since the above analysis was undertaken (on 20 September 2011) global equity markets, commodity prices and the AUD:USD exchange rate have been very volatile. Due to, in particular, heightened concerns regarding the European sovereign debt crisis and its impact on funding costs and global economic growth (and the repatriation of investment funds back into USD as a result of this market uncertainty), the AUD:USD exchange rate fell below parity (but has since rebounded).

- 28 Accordingly, we have considered whether our AUD:USD exchange rate assumptions should be revised. In this regard we note that:
- (a) due to the strong correlation between USD denominated Australian export commodity (and coal) prices and AUD:USD exchange rates these variables should be assessed on a consistent basis
 - (b) while the price of coal is denominated in USD the relevant price for valuation purposes is the price received by Coal & Allied in AUD. Due to the strong correlation referred to in (a) the AUD price received for export coal is less volatile than the USD price⁶
 - (c) the recent fall in the spot AUD:USD exchange rate has coincided with declines in short-term commodity prices. Accordingly, any adjustment to our short (and medium) term AUD:USD exchange rate assumptions would also result in an adjustment to short (and medium) term USD denominated coal prices, the net effect of which (in terms of the short and medium term AUD denominated coal prices) would not be material
 - (d) our opinion on long-term coal prices and the appropriate long-term AUD:USD exchange rate (being the key value drivers) are not materially impacted by short-term events.
- 29 In our opinion therefore, the recent volatility in USD commodity prices and AUD:USD exchange rates does not require any revision to our implied AUD denominated coal price assumptions.

State coal mining royalties

- 30 On 6 September 2011 the NSW State Government announced that coal royalties in NSW will be increased “to address the negative financial impacts on NSW of the carbon tax”. While the NSW State Government did not announce the proposed new royalty rates⁷, consistent with the NSW State Government Budget estimates we have assumed that any increase would be staged with the full royalty rate increase being levied from 1 July 2014⁸:

NSW coal mining royalty rate assumptions			
Year to 30 June	2013 %	2014 %	2015 and beyond %
Open cut mines	8.5 – 9.5	8.5 – 9.5	9.0 – 10.0
Underground mines	7.5 – 8.5	7.5 – 8.5	8.0 – 9.0
Deep underground mines	6.5 – 7.5	6.5 – 7.5	7.0 – 8.0

⁶ For example, as commodity prices increase the AUD:USD exchange rate generally rises. As a result the AUD equivalent of export proceeds may not change materially.

⁷ Legislation to implement the higher royalty rates will be prepared after the Australian Government finalises its carbon tax and MRRT legislation.

⁸ Current coal mining royalties in NSW are 6.2% for deep underground coal mines, 7.2% for underground coal mines and 8.2% for open cut coal mines.

- 31 We also considered the sensitivity of our valuation to the royalty rate assumed. However, it should be noted that Mineral Resource Rent Tax (MRRT) (as currently proposed) includes a “royalty allowance” which effectively provides credits for State Government royalty payments which can be used to reduce any MRRT liability. As a result the increase in mining royalties is only expected to have an adverse impact on coal mining companies subject to the MRRT where the MRRT liability in a year is less than the royalties paid.

Federal taxes

- 32 As Coal & Allied will be subject to the MRRT, our valuation reflects the impact of the MRRT from 1 July 2012 as currently proposed, the details of which are summarised in Section IV. In addition we have adopted a corporate tax rate of 29% for Coal & Allied from 2014⁹ and beyond.

Discount rates

- 33 After tax discount rates of 10.6% per annum were adopted for valuing the existing operating mines. An after tax discount rate of 12.1% per annum was adopted for the Mount Pleasant development project. The higher discount rate applied to the Mount Pleasant project reflects the greater risks associated with mines in development compared to existing mine operations.

Evaluation of the Scheme

- 34 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of Coal & Allied			
	Low	High	Mid-point
	A\$ per share	A\$ per share	A\$ per share
Value of Scheme Consideration	125.00	125.00	125.00
Value of 100% of Coal & Allied per share	111.20	128.35	119.78
Extent to which the Scheme Consideration exceeds (or is less than) the value of Coal & Allied	13.80	(3.35)	5.22

- 35 As the Scheme Consideration lies within our assessed valuation range for Coal & Allied shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Coal & Allied shareholders when assessed based on the guidelines set out in RG 111.
- 36 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 37 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Coal & Allied shareholders in the absence of a superior proposal.

Summary of advantages and disadvantages

- 38 In assessing the Scheme we have also considered the likely advantages and disadvantages for Coal & Allied shareholders if the Scheme proceeds.

⁹ Reflecting Coal & Allied’s 31 December year end.

Advantages

39 In our opinion, the Scheme has the following benefits for Coal & Allied shareholders:

- (a) the Scheme Consideration of A\$125.00 cash per share is towards the high end of our assessed value range for Coal & Allied shares on a 100% controlling interest basis
- (b) the Scheme Consideration represents a significant premium to the recent market prices of Coal & Allied shares prior to the announcement of the indicative proposal that was received from Rio Tinto on 6 August 2011
- (c) furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Coal & Allied shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the indicative proposal from Rio Tinto was announced. Shareholders should note that the S&P/ASX 200 Resources Index has fallen 7.8% since the last trading day prior to Coal & Allied's announcement that it had received an indicative proposal from Rio Tinto on 8 August 2011¹⁰.

40 Further, it should be noted that as Rio Tinto and Mitsubishi Development already own 85.9% of Coal & Allied shares there is no realistic likelihood that a competing offer for Coal & Allied shares will be received prior to the Scheme meeting.

Disadvantages

- 41 Coal & Allied shareholders should note that if the Scheme is implemented they will no longer hold an interest in Coal & Allied. Coal & Allied shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration.
- 42 However, as our assessed value of Coal & Allied shares is consistent with the Scheme Consideration, in our opinion, the present value of Coal & Allied's future potential is reflected in the Scheme Consideration.
- 43 Shareholders should also note that the value of Coal & Allied shares is particularly sensitive to long-term coal price assumptions in AUD terms. While our valuation reflects long-term coal prices which are consistent with average analyst forecasts at the low end, and higher than average analyst forecasts at the high end, those shareholders which have a more optimistic view on long-term coal prices may consider the Scheme Consideration to be inadequate¹¹.

Conclusion

44 Given the above analysis, we consider the acquisition of Coal & Allied shares under the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal.

¹⁰ The decline in the S&P/ASX 200 Resources Index is calculated from 5 August 2011 up to 21 October 2011.

¹¹ We note however the impact of changes in the AUD:USD exchange rate and the importance of AUD coal prices rather than just USD coal prices and the (often significantly offsetting) increase in the value of the AUD at times of higher commodity prices.

- 45 We note that Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) must pass two resolutions in order for the Scheme to proceed (referred to in the Notice of Meeting and Scheme Booklet as the Section 611 Item 7 Resolution and the Scheme Resolution). In our opinion the advantages of the Scheme outweigh the disadvantages and both resolutions are fair and reasonable for the reasons stated above.

General

- 46 In preparing this report we have considered the interests of Coal & Allied shareholders as a whole (other than Rio Tinto and Mitsubishi Development). Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 47 The impact of approving the Scheme on the tax position of Coal & Allied shareholders depends on the individual circumstances of each investor. Coal & Allied shareholders should read the Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.
- 48 The ultimate decision whether to approve the acquisition of shares by Hunter Valley Resources under the Scheme should be based on each Coal & Allied shareholder's assessment of their own circumstances. If Coal & Allied shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that Coal & Allied shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Wayne Lonergan
Authorised Representative

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I Key terms of the Scheme

Terms

- 49 On 8 August 2011 Coal & Allied announced that on 6 August 2011 it had received an incomplete, non-binding, conditional and indicative proposal from Rio Tinto which could lead to a takeover offer being made to acquire all the outstanding shares in Coal & Allied not held by Rio Tinto and Mitsubishi Development. The indicative proposal contemplated an offer of A\$122.00 cash for each Coal & Allied share not owned by either Rio Tinto or Mitsubishi Development.
- 50 Subsequently, on 26 August 2011 Coal & Allied announced that it had executed a Scheme Implementation Agreement (the Agreement) with Hunter Valley Resources¹², under which it is proposed that Coal & Allied shareholders other than Rio Tinto and Mitsubishi Development¹³ have their shares acquired by Hunter Valley Resources by way of a Scheme of Arrangement (the Scheme). The Scheme is subject to a number of conditions precedent, as summarised below.
- 51 If the Scheme is approved and implemented, Coal & Allied shareholders will receive A\$125.00 cash for each Coal & Allied share they hold on the Scheme Record Date, less the cash amount of any Special Dividend which Coal & Allied announces before the Scheme Record Date.
- 52 Under the Agreement, Coal & Allied intends to pay a fully franked Special Dividend of up to A\$8.00 per Coal & Allied share, subject to the necessary approvals for the Scheme being obtained and Coal & Allied obtaining a ruling from the ATO. Should a Special Dividend of A\$8.00 per Coal & Allied share be paid the cash consideration payable under the Scheme will be reduced to A\$117.00 per share.
- 53 Coal & Allied shareholders will therefore receive a total of A\$125.00 cash per share if the Scheme is implemented regardless of whether a Special Dividend is paid.

Conditions

- 54 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the Agreement between Coal & Allied, Hunter Valley Resources dated 26 August 2011:
- (a) respective regulatory approvals from the Australian Securities & Investments Commission (ASIC), the Foreign Investment Review Board (FIRB)¹⁴ and such other regulatory approvals as required
 - (b) approval of the Scheme by the Court in accordance with s411(4)(b) of the Corporations Act
 - (c) Coal & Allied shareholder approval of the Scheme by the requisite majorities at the Scheme meeting under the Corporations Act

¹² Hunter Valley Resources Pty Ltd is an entity jointly owned by Rio Tinto and Mitsubishi Development.

¹³ For ease of reporting we have referred to "Coal & Allied shareholders other than Rio Tinto and Mitsubishi Development" as "Coal & Allied shareholders" in the remainder of our report.

¹⁴ On 3 October 2011, Coal and Allied announced that FIRB approval had been received.

- (d) Coal and Allied shareholder approval of the joint bidding arrangements (between Rio Tinto, Mitsubishi Development and Hunter Valley Resources) by the requisite majority at the general meeting to be held before the Scheme meeting
- (e) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the transaction is in effect at 8.00am on the Second Court Date
- (f) no “Coal & Allied Material Adverse Change” (as defined in clause 3.2(g) of the Agreement) occurs in respect of Coal & Allied on or before 8.00am on the Second Court Date
- (g) no “Coal & Allied Prescribed Event” (as defined in clause 1.1 of the Agreement) occurs in respect of Coal & Allied on or before 8.00am on the Second Court Date.

Resolutions

- 55 Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) will be asked to vote on the Scheme and the joint bidding arrangements in accordance with the resolutions contained in the notice of meeting accompanying the Scheme Booklet.
- 56 If the resolutions are passed by the requisite majorities, Coal & Allied must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all Coal & Allied shareholders who hold Coal & Allied shares as at the scheme record date, irrespective of whether or not they voted for the Scheme.

II Scope of our report

Purpose

- 57 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the Corporations Regulations prescribes information to be sent to shareholders in relation to a members' scheme of arrangement pursuant to s411 of the Corporations Act.
- 58 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 59 As noted above, Rio Tinto and Mitsubishi Development currently have a combined shareholding in Coal & Allied of 85.9% and have three representatives on the Coal & Allied Board. Accordingly, there is a regulatory requirement for an IER to be prepared for Coal & Allied shareholders pursuant to s411 of the Corporations Act.
- 60 In addition, the Recommending Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development). Furthermore, as the Scheme (if approved and implemented) will result in 100% of the securities in Coal & Allied being held by Rio Tinto and Mitsubishi Development, RG 111 requires that we provide an opinion on whether the consideration payable under the Scheme is "fair" and "reasonable" to the shareholders of Coal & Allied (other than Rio Tinto and Mitsubishi Development).
- 61 The Proposal Response Committee¹⁵ have therefore requested LEA to prepare an IER stating whether the proposed acquisition of the shares in Coal & Allied by Rio Tinto and Mitsubishi Development under the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) and the reasons for that opinion.
- 62 This report has been prepared by LEA for the benefit of Coal & Allied shareholders to assist them in considering the resolutions to approve the Scheme and the joint bidding arrangements. The sole purpose of our report is to determine whether, in our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development).
- 63 The ultimate decision whether to approve the Scheme and the joint bidding arrangements should be based on each Coal & Allied shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

¹⁵ The Proposal Response Committee comprises three Directors of Coal & Allied and was formed to respond to the initial proposal from Rio Tinto and the Scheme.

Basis of assessment

- 64 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, Regulatory Guide 111 – *Content of expert reports* (RG 111).
- 65 RG 111 distinguishes “fair” from “reasonable” and considers:
- (a) the Scheme to be “fair” if the value of the Scheme consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison must be made assuming 100% ownership of the target company
 - (b) the Scheme to be “reasonable” if it is fair. The Scheme may also be “reasonable” if, despite not being “fair” but after considering other significant factors, there are sufficient reasons for shareholders to approve the Scheme in the absence of a superior proposal.
- 66 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a Scheme may be “*in the best interests of the members of the company*” if there are sufficient reasons for securityholders to vote in favour of the Scheme in the absence of a higher offer.
- 67 In our opinion, if the Scheme is “fair” and “reasonable” under RG 111 it must also be “in the best interests” of Coal & Allied shareholders.
- 68 Our report has therefore considered:
- (a) the market value of 100% of the shares in Coal & Allied
 - (b) the value of the Scheme Consideration offered by Rio Tinto and Mitsubishi Development
 - (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is fair under RG 111)
 - (d) the extent to which a control premium is being paid to Coal & Allied shareholders
 - (e) the extent to which Coal & Allied shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (f) the listed market price of Coal & Allied shares, both prior to and subsequent to the announcement of the proposed Scheme
 - (g) the likely market price of Coal & Allied shares if the proposed Scheme is not approved
 - (h) the value of Coal & Allied to an alternative offeror and the likelihood of a higher alternative offer being made for Coal & Allied prior to the date of the Scheme meeting
 - (i) the advantages and disadvantages of the Scheme from the perspective of Coal & Allied shareholders
 - (j) other qualitative and strategic issues associated with the Scheme.

Limitations and reliance on information

- 69 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time and have been particularly volatile in recent times.
- 70 Our report is also based upon financial and other information provided by Coal & Allied. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 71 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Scheme from the perspective of Coal & Allied shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 72 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 73 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 74 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 75 In forming our opinion, we have also assumed that:
- (a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects
 - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Agreement and the terms of the Scheme itself.

Reliance on technical experts

- 76 To assist us to assess the value of Coal & Allied's coal assets we appointed AMC Consultants Pty Ltd (AMC) to provide an opinion on technical mining matters including the reliability of reserve and resource estimates, recovery rates, mining plans and the appropriate operating and capital cost estimates. AMC has also provided an opinion on the value of the coal assets of Coal & Allied that are in the exploration and evaluation stage. AMC provides a range of technical advisory services to the mineral resources industry and has significant experience in the coal mining sector.
- 77 LEA has relied on the work undertaken by AMC when forming our opinion on the value of Coal & Allied's coal assets. A copy of the AMC report is included at Appendix J.
- 78 In making references to Coal & Allied's coal reserves and resources in this report we have relied on the report prepared by AMC and statement of reserves and resources issued by Coal & Allied. LEA does not certify these reserves and resources for the purpose of the Joint Ore Reserves Committee (JORC) Code.

III Profile of Coal & Allied

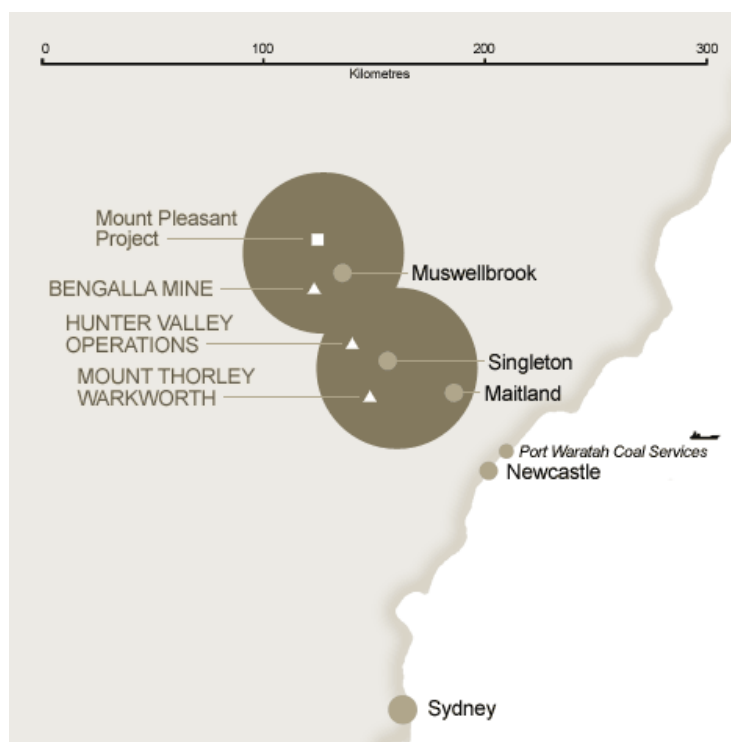
Overview

79 Coal & Allied is the largest coal company listed on the ASX with attributable coal production of around 19 million tonnes per annum (Mtpa) and sales in excess of A\$2 billion. The company's operations include the 100% owned Hunter Valley Operations (HVO) and joint venture interests in the Mount Thorley, Warkworth and Bengalla coal mines. Coal output is primarily thermal coal with semi-soft coking coal also produced. Coal & Allied is also developing the 100% owned Mount Pleasant coal project and has a 36.5% shareholding in Port Waratah Coal Services Limited (PWCS), the primary coal export operation located at the Port of Newcastle.

Major assets

80 Coal & Allied's assets are high quality, large scale and relatively low cost. A large proportion of its coals are sold for benchmark prices, with Coal & Allied contributing to the benchmark thermal coal and semi-soft coking coal annual pricing negotiations. A map showing the location of Coal & Allied's major assets in the Hunter Valley of NSW is shown below:

Coal & Allied – location of operations



- 81 Coal & Allied's operations employ some 3,200 staff with approximately 20% of these hired as contractors. All of Coal & Allied's mining operations, including the joint ventures, are managed by Rio Tinto Coal Australia Pty Limited (RTCA). RTCA is operated from a Queensland head office. While each of the mines are managed individually, in certain instances such as water management and equipment movements the adjacent operations at HVO and MTW have the ability to co-operate. In addition, management of rail and port operations for HVO and MTW are integrated, with significant blending of product from HVO and MTW conducted at port.
- 82 A number of growth options are available to Coal & Allied at both the greenfield (Mount Pleasant) and brownfield levels (expansions at the current mining operations). However, growth is dependent on, inter alia, availability of infrastructure in the Hunter Valley Coal Chain (HVCC) and export capacity at the Port of Newcastle.

Hunter Valley Operations

- 83 Hunter Valley Operations (HVO) is located 24km north west of Singleton in the Hunter Valley and 90km from PWCS. Coal production is a mixture of thermal and semi-soft coking coals. In recent periods coal production has been around 10Mt to 11Mt of saleable coal, but is scheduled to ramp up to 14Mtpa during 2012. HVO is 100% owned by Coal & Allied.
- 84 Mining commenced at the Howick mine in 1949 (now known as the West Pit and part of HVO North), the Lemington mine in 1971 and The Hunter Valley No.1 mine in 1979. In 2000 Coal & Allied merged the Howick and Hunter Valley mines to create HVO. The Lemington mine was acquired and merged into HVO in 2001.

Mining and processing

- 85 HVO operations are geographically vast and encompasses six mining pits, two coal handling and preparation plants, two rail load-out facilities as well as office, workshop and other requisite facilities. The mine operates 24 hours a day, seven days a week and employs over 1,500 staff. The various sites within HVO have been in operation for more than 60 years, with numerous older pits having already been mined out. As the mine develops further, the centre of activity of mining will be progressing towards the south, increasing haul distances and personnel travel distances between pits to the site facilities.
- 86 HVO's mining and processing activities are geographically divided by the Hunter River. The two areas are known as HVO South and HVO North. Both the HVO North and HVO South operations adopt the conventional strip mining approach utilising truck and shovel methods in the mining process, while the HVO South operations are complimented by draglines. HVO North currently mines the West, Carrington and Northern pits, with HVO South mining at the Cheshunt and Riverview pits. Coal mining operations in the South Lemington and Northern pits are largely completed.
- 87 HVO current Life of Mine (LOM) plans incorporate a combined schedule comprising the West, Carrington and Mitchell pits in the North and the Cheshunt and Riverview pits in the South. Additional mining resource areas such as an expanded open cut operation (which would add incremental production rates at low capital costs), the Southern and Auckland resource areas, as well as potential underground operations are not included in these LOM plans (but provide a source of additional future production in the medium and long-term).

Mount Thorley Warkworth

88 MTW is an integrated operation of two open cut mines located adjacent to each other 15km south west of Singleton in the Hunter Valley of NSW. The majority of coal produced is destined for export markets as either thermal or semi-soft coking coals, with a minor proportion sold domestically. The operation has recently produced some 9Mtpa of coal, with production scheduled to increase to a 12Mtpa rate during 2012.

Ownership

89 Both the Warkworth and Mount Thorley mines have been in operation since 1981. Coal & Allied manages MTW on behalf of the joint venture partners, with ownership of the operations as follows:

- (a) **Mount Thorley** – Coal & Allied (80%) and POSCO Australia Pty Ltd (POSCO) (20%)
- (b) **Warkworth** – Coal & Allied subsidiaries (55.6%)¹⁶, Mitsubishi Development (28.9%), Mitsubishi Materials (Australia) Pty Limited (6%) and Nippon Steel Australia Pty Limited (9.5%).

90 In January 2004, the Mount Thorley and Warkworth joint ventures sought to improve efficiency by entering into an Operational Integration Agreement (OIA) that allowed the operations to be managed together. Under the terms of the OIA export coal can be produced from either mine and is allocated between the two joint ventures based on a tonnage commitment ratio that is agreed at the beginning of each year. Costs are also allocated in accordance with this ratio. Since entering into the OIA the tonnage commitment ratio has been Warkworth 65% and Mount Thorley 35%¹⁷. Each joint venture is then responsible for marketing and sale of its respective tonnages.

Mining and processing

91 Both the Mount Thorley and Warkworth mines are open cut and utilise conventional dragline / truck and shovel methods. Coal is hauled to one of two coal handling preparation plants located at the Mount Thorley and Warkworth mines. Coal is washed, blended and prepared for sale and loaded for transportation 90km to PWCS in Newcastle for export. The mines are operational 24 hours a day, seven days a week, with some 1,200 employees.

92 Coal & Allied is currently investigating options to extend mining within its existing Warkworth lease, i.e. on land that is owned by the mine and is not used for agricultural purposes. This would add a further 21 years of operation to the mine and current LOM plans include this expansion. There is also scope to mine underground resources at MTW, with a number of studies currently underway.

¹⁶ Beneficially owned by CNA Warkworth Australasia Pty Limited (26.82%) and CNA Resources Limited (28.75%).

¹⁷ On this basis Coal & Allied's attributable production is 64.1% of the MTW operation.

Bengalla

- 93 Bengalla, located 4km south west of Muswellbrook in the Hunter Valley region of NSW, supplies international markets with up to 6Mt of thermal coal per annum. Bengalla's history as a project began in 1990, when the NSW Government called for expressions of interest from mining companies to develop a coal resource. Development consent was granted for Bengalla in 1996 and the site commenced production in 1999.

Ownership

- 94 Coal & Allied acquired its interest in Bengalla in 2001. The current ownership of Bengalla is, CNA Bengalla Investments Pty Ltd¹⁸ (40%), Wesfarmers Bengalla Limited (40%), Taipower Bengalla Pty Ltd (10%) and Mitsui Bengalla Investments Pty Ltd (10%). The mine is operated by a joint venture company, Bengalla Mining Company Limited (BMC), and RTCA provides management services to BMC on behalf of Coal & Allied.

Mining and processing

- 95 Bengalla is an open cut operation, using a dragline, truck and shovel method. The mine has around 400 employees who work in shifts to keep the mine operational 24 hours a day, seven days a week. The Bengalla mine has thick coal seams and relatively low strip ratios. After washing, blending and preparation for sale, the coal is loaded onto trains for transportation 115km to PWCS in Newcastle where it is shipped to international customers.
- 96 On 30 November 2010, Coal & Allied and its joint venture partners announced the A\$141 million expansion (100% basis) of the Bengalla mine site. The expansion will increase Bengalla's capacity from the current run of mine (ROM) production rate of 7.8Mtpa to 9.3Mtpa. The agreement follows completion of a feasibility study into an expansion of the existing open cut thermal coal mine in Muswellbrook, and with increasing capacity in the HVCC. The expansion will include an upgrade to the site's coal handling and preparation plant to allow for two-stage washing, together with the upgrading of infrastructure and the purchase of additional mining equipment. A feasibility study for a second stage expansion to increase ROM production to the currently consented rate of 10.7Mtpa is also underway.

Mount Pleasant development

- 97 Coal & Allied is currently conducting a full feasibility study into the development of the 100% owned Mount Pleasant deposit, located adjacent to the Bengalla mine and 4km from the town of Muswellbrook in the Hunter Valley and 115km to PWCS. The proposed mine is expected to produce up to 10.5Mtpa ROM thermal coal for international markets.
- 98 Coal & Allied obtained an authority over the Mount Pleasant resource in 1992. Exploration, mining studies and an environmental impact statement (EIS) were completed in 1997 with development consent granted in 1999. In 2007 a shopfront was opened at 19 Bridge Street Muswellbrook for engagement with the community. Coal & Allied has also applied for a modification to the existing development consent for the Mount Pleasant Project to provide options that may reduce capital costs, allow more efficient operations and reduce the amount of vegetation cleared¹⁹.

¹⁸ A fully owned subsidiary of Coal & Allied.

¹⁹ Approval for modification of the existing development consent was received on 21 September 2011.

- 99 The proposed Mount Pleasant development plans are based on an open cut mine, using a truck and shovel method. Around 350 employees are expected to work in shifts to keep the mine operational 24 hours a day, seven days a week. The proposed development, construction is expected to commence in 2012 with first coal production expected in 2014.

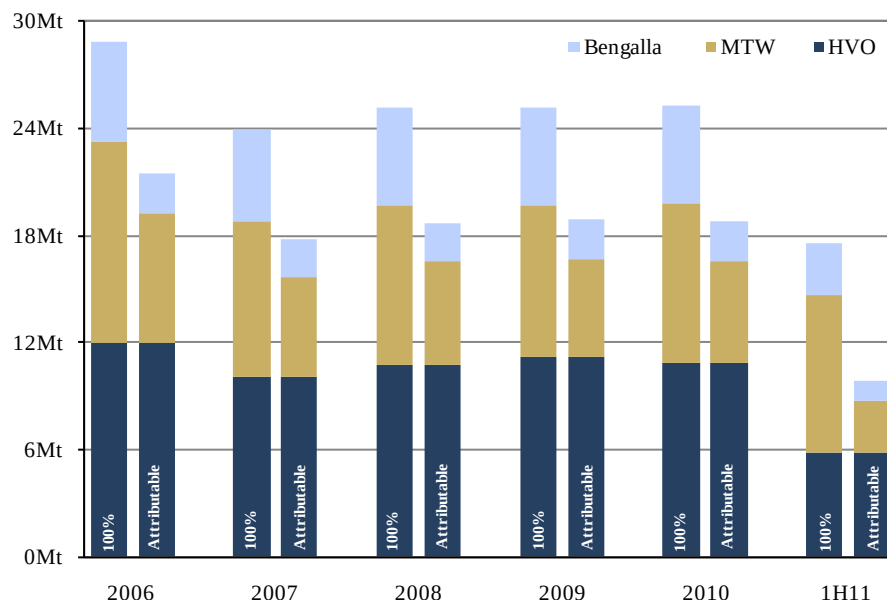
Oaklands project

- 100 Coal & Allied also owns the Oaklands project, for which the company commenced a sale process in June 2010. The deposit has a resource of 1.3 billion tonnes and is located in the Southern Riverina district of NSW.
- 101 The Oaklands project currently holds an assessment lease, which is an intermediate step between exploration and production tenure. Further work will be required to develop the project to a point where a mining lease application may be validly made²⁰.
- 102 Oaklands product coal is expected to be broadly comparable with a number of low rank Indonesian thermal coals currently traded on the international export market.

Coal & Allied production

- 103 Production in 2007 reduced from the previous year due to constraints in available rail and port capacity. From 2007 to 2010 production levels were largely consistent averaging around 25Mtpa, as shown below:

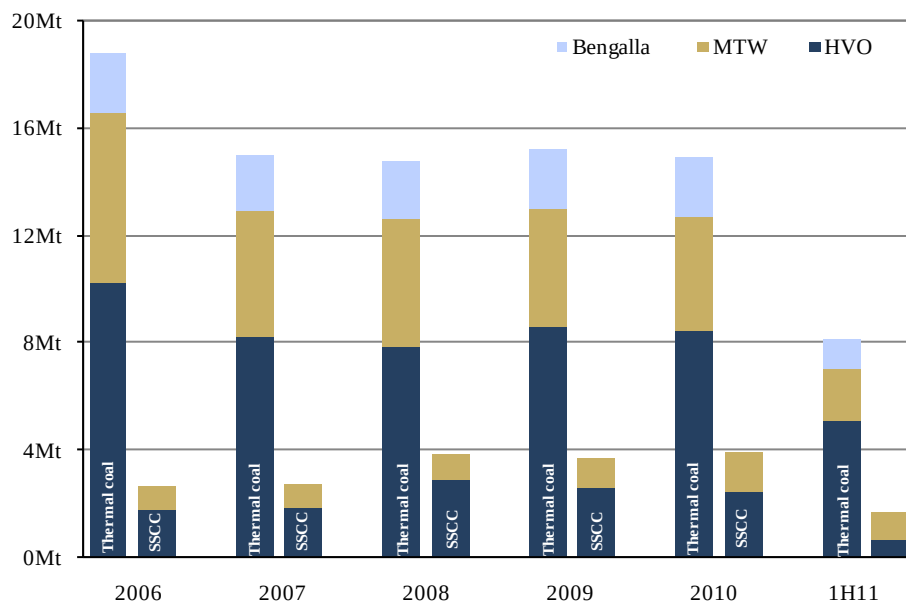
Coal & Allied – production profile



²⁰ An assessment lease is designed to allow retention of rights over an area in which a significant deposit has been identified, if mining the deposit is not commercially viable in the short term but there is a reasonable prospect that it will be in the longer term. The holder is allowed to continue prospecting operations and to recover minerals in the course of assessing the viability of commercial mining.

- 104 The importance of HVO to Coal & Allied is more apparent on an attributable tonnage basis, with almost 60% of Coal & Allied's coal production derived from HVO (although this level is expected to decrease as the Mount Pleasant project commences). Given the OIA arrangements for MTW attributable production has been grouped for these mines on a basis consistent with that described in paragraph 90 above.
- 105 The production breakdown of thermal and semi-soft coking coals produced from Coal & Allied's operations in recent periods is shown below:

Coal & Allied – production breakdown (attributable share)



- 106 As discussed above Coal & Allied's mines are expanding to their LOM plan levels. As a result capital expenditure is expected to increase significantly on previous years. This reflects increases for both sustaining capital expenditure (to overhaul and replace aging equipment), as well as development capital expenditure attributable to the:
- (a) completion of HVO and MTW latent capacity expansions (taking production to 14Mtpa at HVO and 12Mtpa at MTW)
 - (b) Bengalla mine expansion; and
 - (c) Mount Pleasant early construction costs including land acquisitions.

Reserves and resources

- 107 Coal & Allied's mining operations are centred in the Wittingham Coal Measures of the Hunter Coalfield, which is part of the Sydney Basin. A summary of Coal & Allied's reserves and resources are shown below:

Coal & Allied – resources and reserves (100% basis)					
Mine or joint venture	Total reserves Mt	Resources			
		Measured Mt	Indicated Mt	Inferred Mt	Total Mt
HVO	386	201	428	368	997
Mount Thorley	37	1	24	74	99
Warkworth	400	4	174	299	477
Bengalla	172	12	18	54	84
Mount Pleasant	394	162	245	205	612
Oaklands	-	596	584	90	1,270
Total	1,388	976	1,473	1,090	3,539

Note:

- Resources are stated as additional to the reserves.
- Refer to Section 6.17 of the Scheme Booklet for the competent person's statement.

Port Waratah Coal Services

- 108 Coal & Allied owns a 36.5% interest in PWCS. PWCS is located at the Port of Newcastle and operates the world's largest and one of the most efficient coal handling port operations. The facility incorporates the Carrington and Kooragang terminals and has ship loading capacity of 113Mtpa. PWCS currently applies a coal handling charge which reflects the prevailing capital, operating and debt service costs and obligations of the port. Effective utilisation of the port capacity is underwritten by long-term ship-or-pay contracts with coal exporters. All planning and scheduling of coal exports from the Hunter Valley is facilitated by the Hunter Valley Coal Chain Co-ordinator Limited (HVCCC).
- 109 PWCS handles a diversity of coal types from over 30 mines, using sophisticated blending and quality control techniques. It works closely with coal exporters, rail and port organisations and the HVCCC to improve communication and joint planning within HVCC. As demand for coal exports has increased PWCS has embarked upon a continuous expansion programme that has seen throughput capacity rise from 46Mtpa to the present 113Mtpa capacity. Construction is currently underway to increase capacity to 145Mtpa by 2013. Preliminary plans are also in place to add a fourth terminal to the Port of Newcastle²¹ to be operated by PWCS, with current estimates of a 60Mtpa to 100Mtpa export facility. However, the ultimate structure and capacity of this terminal is yet to be finalised.

²¹ Newcastle Coal Infrastructure Group (NCIG) operates Newcastle's third coal export terminal.

Financial performance

110 The financial performance of Coal & Allied for the three years ended 31 December 2011 and the six months to 30 June 2011 is set out below:

Coal & Allied – financial performance				
	Year to 31 Dec 08 A\$m	Year to 31 Dec 09 A\$m	Year to 31 Dec 10 A\$m	6 mths to 30 Jun 11 A\$m
Coal sales revenue	2,632.9	2,267.7	2,065.0	1,155.8
Other revenue	17.6	26.8	14.9	6.3
Total revenue	2,650.5	2,294.5	2,079.9	1,162.1
Underlying EBITDA⁽²⁾	1,248.0	900.2	618.4	378.0
Depreciation and amortisation	(99.4)	(118.5)	(118.9)	(60.5)
Underlying EBIT⁽³⁾	1,148.6	781.7	499.5	317.5
Net interest income / (expense)	(10.9)	9.7	6.2	(1.9)
Net profit before tax	1,137.7	791.4	505.7	315.6
Significant items ⁽¹⁾	-	-	481.4	-
Income tax expense	(333.9)	(205.9)	(283.5)	(88.2)
Net profit after tax	803.8	585.5	703.6	227.4
Total overburden removed (Mt attributable)	346.9	368.1	415.9	227.4
Production (Mt attributable)	18.6	19.0	18.8	9.9
Coal sold (Mt attributable)	18.7	18.8	18.7	13.5
Average coal price realised (A\$/tonne)	\$141.55	\$119.35	\$109.84	\$116.75

Note:

- 1 This is the A\$481 million gain on the sale of Maules Creek and Vickery projects in 2010.
- 2 EBITDA – earnings before interest, tax, depreciation and amortisation.
- 3 EBIT – earnings before interest and tax.

111 Below is a summary of the key factors that have impacted the annual financial performance of Coal & Allied over the above period.

Year to 31 December 2008

- sales increased 1.2Mt to meet the Coal & Allied's allocated port capacity
- benchmark thermal and semi-soft coking coal prices increased 120% and 270% respectively on 2007, reflecting strong commodity demand and still booming global economy at the time prices were negotiated
- as a result of higher prices (particularly for metallurgical coals) Coal & Allied's production mix was changed to maximise returns with semi-soft coking coal production increasing 37% compared to 2007
- the higher coal prices resulted in significantly higher royalty costs which increased 147% from A\$67 million in 2007 to A\$166 million in 2008
- high commodity prices for fuel and explosives, as well as rising labour costs resulted in increased operating costs in 2008 compared to the previous year

Year to 31 December 2009

- coal production levels were similar to that for 2008, being in line with Coal & Allied's available capacity at the Port of Newcastle
- realised USD coal prices reduced by 20%, which was partly offset by the fall in the AUD
- costs increased due to higher mining input costs and higher overburden stripping ratios, which were offset partly by lower oil and fuel related costs

Year to 31 December 2010

- production levels were maintained from the previous year despite the impact of above average rainfall and rising strip ratios
- a targeted increase in saleable production of 5% to 10% resulted in a significant investment in overburden removal that resulted in strip ratios increasing 15% from 2009 (costs on a per tonne of material moved remained relatively stable). It was also noted that strip ratios were not likely to fall back to pre 2010 levels
- mine production costs rose significantly reflecting increased heavy equipment fleet to manage the increased strip ratios
- the sale of the Maules Creek project and Vickery was completed, with a net gain on sale of A\$481.4 million reported

Half year to 30 June 2011

- higher overburden removal rates continued with rates 15% higher than that recorded in the first half of 2010, which resulted in higher operating costs
- coal sales rose by 25% through higher sales volumes and significant increases in both thermal and semi-soft coking coal prices
- in comparison to the first half of 2010 (100% basis) coal production increased 10% to 12.0Mt and coal shipments through the Port of Newcastle increased 19% to 13Mt.

Cash conversion ratio

112 The historical cash conversion ratio for Coal & Allied (a comparison of ungeared pre-tax cash flow to EBITDA) is set out below:

Coal & Allied – cash conversion ratio				
	Year to 31 Dec 08 A\$m	Year to 31 Dec 09 A\$m	Year to 31 Dec 10 A\$m	HY to 30 Jun 11 A\$m
EBITDA	1,248.0	900.2	618.4	378.0
Operating cash flow ⁽¹⁾	1,206.4	530.8	395.2	301.3
Add tax paid	76.2	357.2	257.8	73.5
Add / (subtract) net interest paid (received)	(2.7)	(21.6)	(17.6)	(3.0)
Ungeared pre-tax cash flow	1,279.9	866.4	635.4	371.8
Profit to cash conversion (%)	102.6%	96.2%	102.7%	98.4%

Note:

1 As reported in the annual cash flow statements and presentations.

- 113 As noted Coal & Allied has continually achieved a high conversion ratio of earnings into cash, reflecting the mature nature of the mines it operates and their high cash generating capacity.

Financial position

- 114 The financial position of Coal & Allied as at 31 December 2009 and 2010 and 30 June 2011 is set out below:

Coal & Allied – financial position			
	Audited 31 Dec 09 A\$m	Audited 31 Dec 10 A\$m	Reviewed 30 Jun 11 A\$m
Cash and cash equivalents	354.0	160.7	127.7
Trade and other receivables	297.2	254.5	229.4
Inventories	89.5	131.5	156.8
Other	32.6	-	-
Total current assets	773.3	546.7	513.9
Receivables	9.1	7.8	7.0
Land held for development	3.8	3.8	3.8
Investment in equity accounted investees	99.5	113.8	131.8
Property, plant and equipment	1,459.2	1,566.0	1,701.7
Intangible assets	32.3	30.7	29.8
Deferred tax assets	144.3	-	-
Total non-current assets	1,748.2	1,722.1	1,874.1
Total assets	2,521.5	2,268.8	2,388.0
Trade and other payables	232.8	234.0	227.7
Borrowings	45.7	12.4	-
Employee benefits	109.3	122.6	121.1
Provisions	7.8	8.1	8.1
Current tax liabilities	268.1	18.1	35.5
Derivative financial liabilities	4.2	-	-
Total current liabilities	667.9	395.2	392.4
Borrowings	15.6	1.1	1.1
Employee benefits	4.3	6.6	8.9
Provisions	176.5	193.8	209.0
Deferred tax liabilities	153.8	154.1	151.1
Total non-current liabilities	350.2	355.6	370.1
Total liabilities	1,018.1	750.8	762.5
Net assets	1,503.4	1,518.0	1,625.5

Investments in equity accounted investees

- 115 Investments in equity accounted investments principally reflect Coal & Allied's 36.5% shareholding in PWCS. Coal & Allied has been accounting for this investment since 1999, when it was determined that it had achieved the capacity to significantly influence PWCS.

Property, plant and equipment

- 116 Property, plant and equipment comprises:

Coal & Allied – property, plant and equipment			
	31 Dec 09	31 Dec 10	30 Jun 11
	A\$m	A\$m	A\$m
Mining properties	750.9	728.0	721.4
Freehold land	53.2	88.5	129.3
Plant and equipment	539.0	638.1	667.8
Leased assets	4.6	2.7	-
Capital works in progress	111.5	108.7	183.2
Total	1,459.2	1,566.0	1,701.7

Net interest bearing debt (cash)

- 117 Due to strong cash flow generation and the sale of the Maules Creek project in 2010, cash and deposit balances exceeded loans and borrowings in the years as shown below:

Coal & Allied – loans and borrowings			
	31 Dec 09	31 Dec 10	30 Jun 11
	A\$m	A\$m	A\$m
Cash	354.0	160.7	127.7
Overdrafts	6.6	-	-
Other ⁽¹⁾	1.9	1.1	1.0
Finance lease liabilities	6.0	4.2	-
Deferred liability for acquisition loan from related entities	46.8	8.2	0.1
Total borrowings (current and non-current)	61.3	13.5	1.1

Note:

- 1 Comprising other loans and preference shares.

Share capital and performance

- 118 As at 8 August 2011 Coal & Allied had 86,584,735 fully paid ordinary shares on issue. In addition Coal & Allied senior management and employees participate in a number of share and option plans which are administered by Rio Tinto and involve the issue of shares and options over Rio Tinto shares rather than Coal & Allied shares. The cost of these plans is recharged by Rio Tinto to Coal & Allied under a management and recharge arrangement.
- 119 Coal & Allied has 3 substantial shareholders²², being Rio Tinto (75.7%), Mitsubishi Development (10.2%) and Perpetual Investments (6.3%).

²² Being those shareholders with a relevant interest in 5% or more of the ordinary shares on issue.

Share price performance

120 The movements in the price of Coal & Allied shares from 1 January 2008 to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto) is summarised in the table below:

Coal & Allied – share price performance				
	High A\$	Low A\$	Close A\$	Monthly volume ⁽¹⁾ 000
Quarter ended				
March 2008	100.00	71.00	85.00	195
June 2008	115.05	85.00	108.00	66
September 2008	120.00	105.00	112.00	15
December 2008	112.00	80.00	85.00	11
March 2009	85.50	67.50	75.00	21
June 2009	85.99	71.38	84.00	12
September 2009	108.50	75.99	80.12	1,869
December 2009	83.00	74.06	79.40	541
March 2010	91.54	78.05	89.96	561
June 2010	100.44	83.25	93.00	788
September 2010	105.00	89.00	104.26	578
December 2010	121.00	103.58	119.95	414
Month ended				
January 2011	134.99	120.05	128.05	198
February 2011	128.64	110.96	118.50	267
March 2011	123.05	111.04	119.54	970
April 2011	129.85	109.16	111.59	624
May 2011	113.08	104.00	111.40	465
June 2011	112.25	101.88	105.50	686
July 2011	107.49	99.52	102.53	556
August 2011 ⁽²⁾	103.95	89.80	91.00	109

Note:

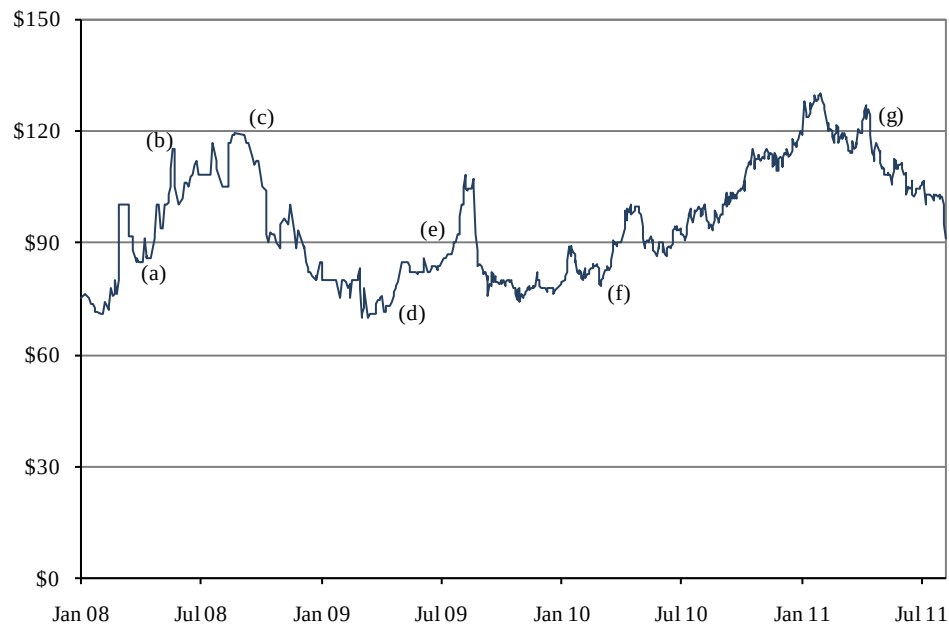
1 Monthly volumes for the quarter ended represent average monthly volumes.

2 Up to and including 5 August 2011.

Source: Bloomberg.

- 121 The following graph illustrates the movement in Coal & Allied's share price from 1 January 2008 to 5 August 2011:

Coal & Allied – share price history
1 January 2008 to 5 August 2011



Source: Bloomberg.

- 122 We note the following with respect of the material movements shown in the share price of Coal & Allied above:
- (a) expectations for large increases in coal prices emerged as supply side issues impacted the amount of coal available for the seaborne market while spot prices soared
 - (b) coal price settlements for the year commencing 1 April 2008 reached US\$240 per tonne for semi-soft coking coal and US\$130 per tonne for thermal coal representing increases of 269% and 134% respectively on the prior year
 - (c) coal price expectations for the year commencing 1 April 2009 were for large price decreases as indicated by spot coal price levels and the slowdown in coal demand due to the global financial crisis (GFC)
 - (d) the Chairman's AGM address outlined that thermal prices have been less affected by the global downturn than other commodities (including coking coal) and that Coal & Allied have achieved US\$70 to US\$72 per tonne for all Japanese annual contracts
 - (e) first half FY09 results improved significantly with revenues up 31% and profit after tax up 66% on the prior year
 - (f) improved economic outlook and business confidence supported steadily rising spot coal with the thermal coal contract prices rebounding to US\$98 per tonne for the year commencing 1 April 2010 (JFY10)

- (g) spot coal prices weakened somewhat on concerns of contagion in Europe, China's contractionary response to inflationary pressures and continued subdued markets in the US.

Liquidity in Coal & Allied shares

- 123 Given the combined shareholdings of Rio Tinto and Mitsubishi Development represent some 85.9% of Coal & Allied's total shares there is a limited free float of shares listed on the ASX. The free float of shares, however, increased significantly post August 2009 when Sojitz Corporation (Sojitz), a major long-term shareholder with a 5.7% stake, sold its entire shareholding. Following this sale the number of analysts that follow Coal & Allied increased from around three to seven, with liquidity increasing significantly as a result.
- 124 The liquidity in Coal & Allied shares based on trading on the ASX during the year to 5 August 2011 is set out below:

Coal & Allied – liquidity in shares					
Period	Value A\$000	Volume 000	WANOS ⁽¹⁾ 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 week to 5 August 2011	10,376	109	86,585	0.1	6.6
1 month to 5 August 2011	65,999	653	86,585	0.8	9.1
3 months to 5 August 2011	177,459	1,701	86,585	2.0	7.9
6 months to 5 August 2011	402,062	3,614	86,585	4.2	8.3
1 year to 5 August 2011	664,146	6,020	86,585	7.0	7.0

Note:

- 1 Weighted average number of shares outstanding.
- 2 Number of shares traded during the period (volume) divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

Source: Bloomberg.

- 125 While the proportion of total shares traded annually is low due to the holdings of Rio Tinto and Mitsubishi Development, we note that the value of shares traded is still substantial in dollar terms (reflecting the size of the company).

IV Coal industry overview

Overview

- 126 Coal & Allied produces a combination of thermal and semi-soft coking coals from its HVO and MTW operations. Coal production from the Bengalla coal mine is thermal coal, as is expected production from the Mount Pleasant coal development. This section therefore discusses the dynamics of the global and Australian coal industries with particular emphasis on the types of coal produced by Coal & Allied and the region (NSW and the Hunter Valley) in which Coal & Allied operates.

Global coal markets

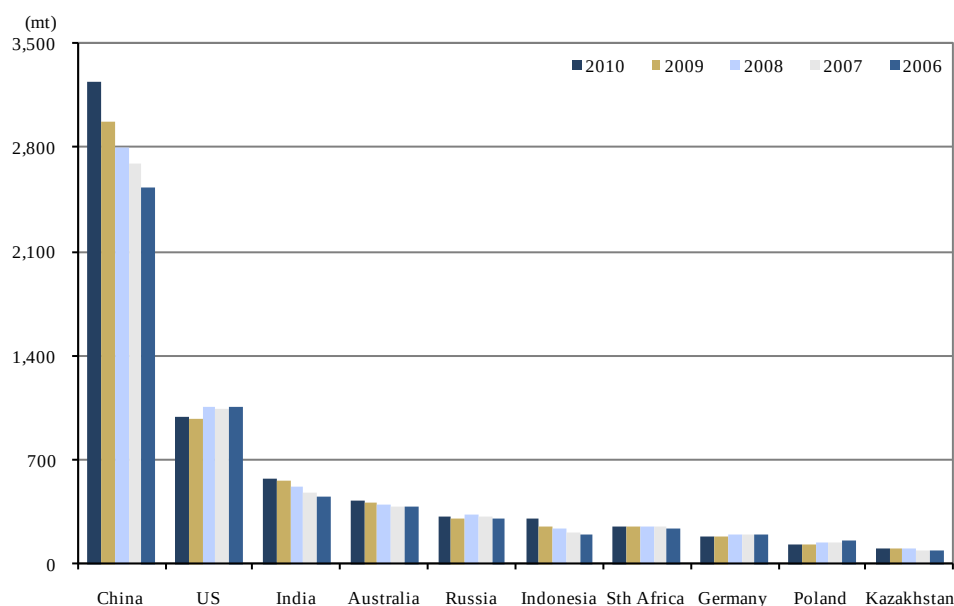
- 127 In 2010 global coal production totalled 7.4 billion tonnes and provided industry revenue of A\$1.1 trillion²³. Approximately 85% of coal output is black coal and the remainder the lower energy and value brown coal. Global trade in black coal at 955Mtpa²⁴ is modest in comparison to total production, reflecting the broad distribution of the resource and the use of coal mined in the country of origin. The global seaborne coal market is split essentially between the Atlantic market, representing imports by Europe and the Pacific market representing imports by Asia.
- 128 There are two primary types of black coal, metallurgical coal and thermal coal. Metallurgical coals are used in the production of iron and steel due to their particular characteristics, high carbon and lower moisture content. Prices for metallurgical coals are at a premium to thermal coals. Thermal coal is used in power generation to produce energy via steaming. Thermal coals generally have low coking properties making them unsuitable for steel making.
- 129 Coal is mined via surface or open-cut mining or underground mining, with the geology of the coal deposit (thickness of the overburden and depth and thickness of the coal seam) generally determining the mining method. Open-cut mining can be conducted by excavator and truck, via a dragline or a combination of both. This mining method involves the sequential removal of overburden to reach the coal and recovers a higher proportion of the coal deposit (typically 90%) than underground mining. It is usually economic when the coal seam is near the surface.
- 130 Underground mining is the predominant form of global coal production. However, approximately 80% of Australian coal is produced via open-cut mines, in part due to the geology of Queensland topography where the depth and thickness of coal has made it more economic to mine by open-cut. The primary forms of underground mining are longwall mining and bord-and-pillar mining. Longwall mining involves mining a long wall of coal in a single slice. It typically allows around 75% of coal to be extracted from panels of coal that can extend long distances through the coal seam. In comparison (once established) the bord-and-pillar method leaves up to 40% of the total coal in the seam, initially retained as pillars to support the roof of the mine. These pillars are usually recovered using pillar extraction methods as part of this mining method.

²³ Source: IBISWorld, Global Coal Mining, dated 8 March 2011.

²⁴ Source: IBISWorld, Global Coal Mining, dated 8 March 2011.

- 131 The five largest consumers of coal (China, USA, India, Russia and Japan) account for approximately 70% of global coal consumption. All of these countries boast large coal resources except Japan, which is reliant on imports. Total production by the top 10 coal producing countries is set out in the graph below, with Australia the fourth largest producer globally:

World annual coal production



Source: BP Statistical Review of World Energy June 2011.

- 132 Worldwide, the reserve-to-production ratio for coal is estimated to be 119 years (Australia's reserve to production ratio is 186 years)²⁵. In comparison the reserve-to-production ratio for oil is 46 years and natural gas 63 years, making coal one of the most abundant carbon fuels²⁵. In a number of countries coal production is also subsidised.

Thermal coal

- 133 Thermal coal is the most common coal type and is used in the production of electricity by power stations. The coal is first crushed or pulverised, and then burnt in large boilers. These boilers create steam, which drives the turbines that create electricity. Thermal coal is also used as a fuel in the manufacture of cement, bricks and tiles and other energy intensive industries. As a result, thermal coal prices are generally traded by reference to energy content.
- 134 Coal currently accounts for about 26% of global energy requirements and generates some 41% of the world's electricity. Thermal coal's use in the production of electricity places it in direct competition to other sources of electricity production, including natural gas (20% of global electricity), hydro (16%), nuclear (15%), oil (6%) and minor sources such as solar, wind and geothermal (2%).

²⁵ Source: World Coal Institute.

- 135 Thermal coal demand is linked to power generation, which fluctuates according to the economic state of global industrialised nations (particularly those in Asia in Australia's case) and the overall health of the global economy. Accordingly, the faster the growth in the global economy the higher the demand for thermal coal and vice versa. This situation is further exacerbated by the growth of electricity consumption in developing countries, which tends to outpace economic growth.
- 136 Demand for thermal coal accelerated following the energy crisis in the 1970s and led to an increased reliance on coal as opposed to oil for power generation and cement manufacturing. Historically, annual and longer term price negotiations have also served to provide a more stable pricing regime compared to other carbon energy sources. Despite rising coal prices in recent periods, coal remains one of the lowest-cost sources of energy for electricity generation.
- 137 In recent years supply of thermal coal has been constrained in Australia and South Africa (the major exporting nations historically) while Russia, Columbia and particularly Indonesia have taken the opportunity to expand their export markets. Infrastructure problems have plagued Australia's coal export growth, however a number of new export port and transport initiatives have the potential to boost exports substantially.

Thermal coal trade (source: ABARE)							
	2006 Mt	2007 Mt	2008 Mt	2009 Mt	2010F Mt	2011F Mt	2012F Mt
Thermal coal exports							
Indonesia	170	189	193	234	270	280	294
Australia	112	112	126	139	141	137	162
Russian Federation	77	88	86	92	87	90	92
Colombia	60	65	74	63	69	72	77
South Africa	68	65	61	67	70	73	74
China	59	51	43	22	18	20	18
Other	89	127	121	108	116	118	117
Total	635	697	704	725	771	790	834
Thermal coal imports							
European Union	181	182	185	171	148	153	156
Japan	118	128	128	113	126	122	131
China	34	41	35	92	119	117	119
Republic of Korea	60	66	76	82	94	95	96
Taiwan	58	61	60	59	62	63	63
India	24	31	34	49	60	77	92
Other	160	188	186	159	162	163	177
Total	635	697	704	725	771	790	834

- 138 In 2009 China became a net importer of thermal coal (net imports increased some 78Mt), and India's imports rose by 15Mt. These increases offset the volume falls recorded in the other major coal importing countries as the GFC took hold, but were not enough to offset large falls in benchmark thermal coal prices. The fall in prices in 2009 should also be viewed in the context of the 2008 coal price, which reflected a rise unprecedented historically in terms of the size of the increase recorded.

- 139 In the first three months of 2010 Chinese thermal coal imports were a record 34Mt, a level more than three times the corresponding period in 2009. This was due to high domestic Chinese coal prices as domestic demand from electricity generation outpaced available supply²⁶. However, in the first quarter of 2011, low delivered domestic Chinese coal prices reduced Chinese coal imports by 35%. The price differential between domestic and international thermal coals has since narrowed and Chinese imports for the rest of 2011 are expected to rise. China has therefore become an arbitrage trader (albeit a very large one) importing thermal coal when international coal prices landed in China are below domestic Chinese thermal coal prices and relying more on domestic sourced coal when imports are unattractive²⁷. ABARE is now forecasting that Chinese imports will be flat over 2011 and 2012. At the same time India, the fastest growing coal import market is expected to increase imports by 28% and 19% in 2011 and 2012 respectively, as new investment in India's coal fired electricity generation capacity is commissioned.
- 140 As is apparent from the above table, China both exports and imports coal. This situation generally arises where domestic production non-proximity to the end user makes transport costs prohibitive. As noted above, thermal coal trade in China moved from a net export to net import position in 2009, notwithstanding an increase in Chinese coal production. This was the result of domestic supply being unable to meet demand (as some mines were closed for safety reasons), prices in the Chinese market being above those in international markets (particularly in the southern regions), weak demand in the Japanese market (China's largest coal export market) and lower international freight rates.

Metallurgical (or coking) coal

- 141 The metallurgical coal market is segregated based on coking properties into hard-coking coal, semi-hard and semi-soft coking coals and pulverised coal injection (PCI) coal. Hard-coking coal commands the highest price owing to its high levels of coking properties. Semi-hard and semi-soft coking coals are lower in coking properties and thus attract a price discount. They are often blended with hard-coking coal in order to meet blast furnace specifications. Semi-soft coking coal can also be used in the PCI process.
- 142 Some 800Mt of metallurgical coal is used by the steel industry annually, with 70% of steel production dependent on coal²⁸. In comparison to thermal coal, a higher proportion of metallurgical coal is traded globally which is due to its relative scarcity versus thermal coals²⁹. Metallurgical coal, or coking coal as it is often called, is a vital ingredient in the steel making process. As a consequence the health of the global steel industry sets the demand for metallurgical coals.

²⁶ In response to the prevailing market conditions new higher cost coal mines in China are being developed.

²⁷ R.K. Morse, G. He, "The World's Greatest Coal Arbitrage: China's Coal Import Behavior and Implications for the Global Coal Market".

²⁸ The remaining steel production is from recycled steel, which in many cases requires electricity generated from thermal coal. Source: Based on interpolated data from the World Coal Association.

²⁹ Approximately 25% of metallurgical coal is traded globally versus around 14% for thermal coals.

- 143 Metallurgical coal is much less common than thermal coal and therefore commands a price premium. Premium hard and other hard coking coals are the most scarce, which contributes to their price premiums over the other more available metallurgical coal types. While many countries hold significant deposits of thermal coal the same cannot be said about coking coal, where Australia (or more specifically Queensland) has a substantial market share due to its competitive deposits of high quality. Australia is by far the largest supplier of metallurgical coals with approximately 60% of the global market, as shown in the table below:

Metallurgical coal trade (source: ABARE)							
	2006 Mt	2007 Mt	2008 Mt	2009 Mt	2010 Mt	2011F Mt	2012F Mt
Metallurgical coal exports							
Australia	124	138	135	135	159	150	166
United States	25	29	39	34	51	52	48
Canada	25	26	27	22	25	25	27
Russian Federation	10	10	16	13	17	20	21
Other	26	24	16	6	5	13	15
World	210	227	233	210	257	260	277
Metallurgical coal imports							
Japan	60	54	57	45	53	52	59
European Union	53	56	56	41	46	48	50
China	9	6	7	34	47	50	52
India	19	22	29	23	25	29	33
Republic of Korea	20	23	24	15	23	26	27
Other	58	66	65	52	63	55	56
Total	219	227	238	210	257	260	277

- 144 In 2009 steel production in Japan, Korea and Europe declined due to struggling domestic economies in the wake of the GFC, with a consequent impact on the level of metallurgical coal imports. However, in China steel production increased with an associated increase in demand for metallurgical coals. In part this was attributable to a government stimulus programme aimed largely at infrastructure, which raised demand for metallurgical coals at a time when domestic supply failed to keep up. Prior to 2009, China was largely self-sufficient in metallurgical coals and imported only modest tonnages. Subdued domestic coal production, increasing production costs and lower international freight rates, as well as arbitrage opportunities similar to those for thermal coal have since increased demand for imported metallurgical coals into China.
- 145 Similar to the situation with thermal coal, high international prices for metallurgical coals in the first quarter of 2011 increased the competitiveness of China's domestic coals and encouraged the drawdown of Chinese stocks. This reduced imports by 24% compared to the previous period in 2010. Notwithstanding this reduction in imports, ABARE still expects Chinese metallurgical coal imports to grow by 6% in 2011, due to strong steel production and restocking at steel mills.

Australian coal industry

- 146 Australia is the fourth largest coal producer globally and holds the fifth largest recoverable reserves of coal. However, due to its relatively small domestic needs, Australia is the world's largest coal exporter. The industry is also one of Australia's largest export sectors, worth over A\$36 billion in FY10, down from almost A\$55 billion in FY09³⁰. Looking to FY11 and FY12 ABARE is forecasting coal export earnings of A\$46 billion and A\$60 billion respectively, as shown below:

Australian coal statistics (source: ABARE)							
	Actual FY06	Actual FY07	Actual FY08	Actual FY09	Actual FY10	Forecast FY11	Forecast FY12
Australian production							
Metallurgical coal (Mt)	120	132	137	125	157	144	164
Thermal coal (Mt)	111	112	115	136	135	138	153
Total exported (Mt)	231	244	252	261	292	282	317
Total domestic (Mt)	76	82	75	72	67	69	71
Total (Mt)	307	326	327	333	359	351	388
Value of exports							
Metallurgical coal (A\$bn)	17.0	15.0	16.0	36.8	24.5	31.9	41.7
Thermal coal (A\$bn)	7.2	6.8	8.4	17.9	11.9	14.0	18.3
Total	24.2	21.8	24.4	54.7	36.4	45.9	60.0
Implied price per tonne (exports)							
Metallurgical coal (A\$/t)	\$141	\$114	\$117	\$295	\$156	\$222	\$254
Thermal coal (A\$/t)	\$65	\$61	\$73	\$131	\$88	\$101	\$120

- 147 Australian coal exports in the March 2011 quarter were hampered by heavy rains in Queensland, which flooded a significant number of mining pits and closed rail corridors. This flooding was the primary reason that metallurgical coal exports reduced 32% in the March 2011 quarter (compared to the previous quarter), with as much as 37Mt of coal (coking and thermal coals) due for delivery in FY11 lost³¹. Due to excessive water remaining in the mining pits and the inability of miners to release this water due to environmental regulations, mining in Queensland is likely to be impacted for some time yet. As such Queensland's coal industry is still operating well below full capacity.
- 148 Australian coals are high in energy content and tend to be relatively low in impurities such as sulphur. The consistent quality, volume, diversity of suppliers and security of supply add to demand for Australian sourced coals and provides impetus for investment in Australian coal projects. Notwithstanding this, coal price volatility is prevalent for all coals, including Australian coals.

³⁰ This reduction was primarily due to reductions in coal prices from the historically high levels that prevailed in FY09.

³¹ Source: QR National Limited.

Australian coal infrastructure

- 149 Seaborne coal trade has been negatively impacted by inadequate infrastructure in Australia and South Africa. Indonesia in particular has capitalised on this situation by expanding coal exports three-fold over the past 10 years. However, future growth of Indonesia's coal industry may be capped by (market driven) requirements to divert exports to Indonesian industries and domestic power stations. Furthermore, Indonesian coals generally have lower energy content than Australian coals, translating to lower prices.
- 150 Australian infrastructure bottlenecks such as inadequate port and rail capacity and shortages of rolling stock (trains and coal wagons) have hindered the growth of Australian exports. This situation is expected to improve going forward as major initiatives at key ports as well as additional rail capacity and rolling stock add significant capacity to Australia's coal infrastructure. Current and planned theoretical capacity output at Australian coal ports is set out below:

Australian port capacity – actual and forecast ⁽¹⁾					
State/port	Export loadings		Theoretical annual capacity		
	FY08 Mt	FY09 Mt	2010 (A) Mt	2012 (F) Mt	2015 (F) Mt
Abbot Point	12.5	14.7	50.0	50.0	80.0 ⁽²⁾
Brisbane	5.5	6.1	10.0	10.0	10.0
Dalrymple Bay (DBCT)	43.5	47.3	85.0	85.0	85.0
Gladstone ⁽³⁾	54.1	56.3	76.0	76.0	127.0 ⁽⁴⁾
Hay Point	36.9	35.8	44.0	44.0	55.0
Total Queensland	152.5	160.2	265.0	265.0	357.0
Newcastle (PWCS) ⁽³⁾	88.9	92.1 ⁽⁵⁾	113.0	133.0	145.0
Newcastle (NCIG)	fno	fno	fno	30.0	66.0
Port Kembla	12.7	13.6	16.0	21.0	26.5
Total NSW	101.6	105.7	129.0	184.0	237.5
Total Australia	254.1	265.9	394.0	449.0	594.5

Note:

- The above does not include the potential port to be located at Balaclava Island (Xstrata Coal).
 - Assuming one additional 30Mtpa terminal is built by 2015, noting port expansion targets of 230Mtpa by 2020.
 - Ports with two coal loading terminals.
 - Includes Stages 1 and 2 of the Wiggins Island Coal Export Terminal.
 - Average of the 31 December 2009 and 2010 years.
- fno – facility not operational.

- 151 In total, planned theoretical coal port capacity in Australia is forecast to reach almost 600Mtpa by 2015. In addition, some 360Mtpa of capacity is in the planning stages from a combination of developments at Abbot Point (210Mtpa) and Dudgeon Port³² (150Mtpa). Given the high capital costs of these ports and the likelihood that the projects will be seeking funding at or around the same time, the probability of all these port developments taking place concurrently is low. Further, it is highly probable that actual coal exports will be lower than this level due to actual infrastructure capacity being lower than nameplate capacity. For

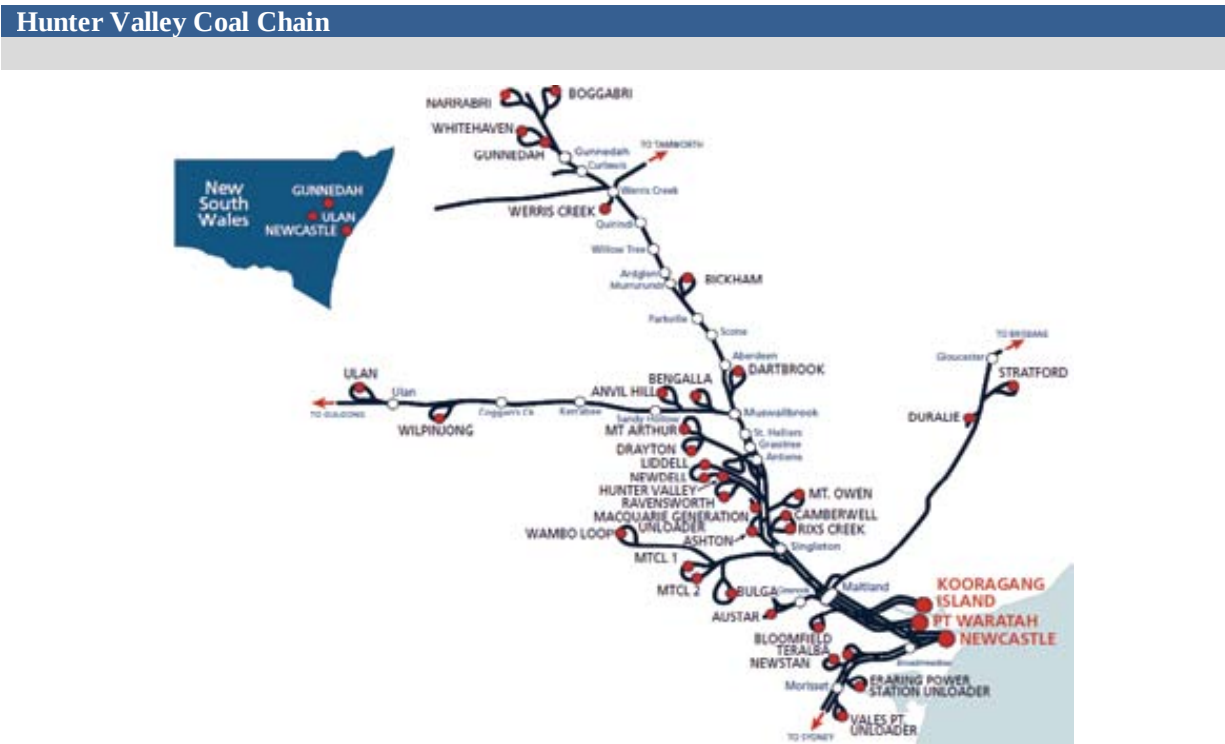
³² A site located 15km south of Hay Point coal terminal.

example, despite recent port expansions and related rail corridor improvements at PWCS and DBCT, the actual port and rail deliveries in these coal chains have not yet achieved theoretical expanded capacity. In addition, a lack of coal production close to Abbot Point and Port Kembla means that some of their respective port capacity goes unused.

152 At present there continues to be a substantial number of coal ships waiting for access to coal loading terminals. As a result demurrage costs (that had increased significantly prior to the GFC) are likely to continue to be a significant cost to Australian coal producers (at least in the short-term).

Hunter Valley Coal Chain

153 The NSW coal industry is made up of five different coalfields being, the Hunter, Newcastle, Gunnedah, Southern and the Western Coalfields. All but the Southern Coalfields are serviced by the HVCC and export out of one of the two Newcastle ports³³. Coal & Allied’s operations are found within the Hunter Coalfield and it transports coal by rail and port through the HVCC. The HVCC is the largest coal export operation in the world. It incorporates a network of 35 coal mines, 14 coal producers, 29 trains, 27 loading points and three coal terminals (located in Newcastle) which load more than 1,000 vessels per year. A map of the HVCC is shown below:



³³ The Southern Coalfield exports coal from Port Kembla.

- 154 Prior to 2003 there was no central planning and co-ordination process for the movement of coal through the HVCC. All planning was done at the individual service provider level, often resulting in inefficient scheduling of coal through the coal chain and a lack of co-ordinated planned maintenance activities. This also resulted in excessive levels of cancellations and rework and made mine expansions unviable. Following successful trials that proved that centralised planning of coal chain activities could release latent coal chain capacity, a co-operative model was developed (the first of its kind in Australia).
- 155 In 2009 the Hunter Valley coal industry went through a major restructure of the contractual arrangements for the movement of coal. The new arrangements provided greater certainty of long-term coal chain system capacity and contractual obligations. On 27 August 2009 the HVCCC was incorporated and included all current HVCC producers as well as service providers. The HVCCC's mission is to plan and co-ordinate the co-operative daily operation and long-term capacity alignment of the HVCC. The HVCCC is therefore entrusted with managing rail track and rolling stock requirements for the NSW coal mining industry. Under this arrangement a small charge per tonne is paid to the HVCCC to cover the cost of the services it provides.
- 156 At the same time the Australian Rail Track Organisation (ARTC) has committed to spend A\$1.4 billion³⁴ to lift the capacity of its rail infrastructure in the Hunter Valley to ensure that the railside capacity of the export coal supply chain continues to remain ahead of demand from the mining industry.

Port infrastructure

- 157 Port capacity is projected to increase significantly in NSW, due to incremental expansions to existing PWCS facilities (taking capacity to 145Mtpa by 2015) and the ramp up of the NCIG terminal (which was commissioned in May 2010 and has 30Mtpa nominal capacity). Plans are in place to expand NCIG's capacity to 53Mtpa and subsequently to 66Mtpa. There are also preliminary plans to add a fourth coal terminal at the Port of Newcastle, with expected additional capacity of between 60Mtpa and 100Mtpa.
- 158 NCIG was formed in 2004 by a consortium of coal mining companies. Coal export allocations for NCIG are based on individual shareholder's interests, however some future unbuilt capacity (12Mtpa) is to be reserved for non-NCIG shareholders.
- 159 In an effort to alleviate bottlenecks, lower demurrage costs and ensure that supporting infrastructure can meet future port capacity the previous system, whereby coal producers nominated and were allocated export volumes annually for port capacity at PWCS was replaced in 2010 by 10 year rolling agreements. The new agreements are ship or pay arrangements supported by annual bank guarantees, which aim to prevent unused capacity going to waste (as this will have to be paid for by the user).

³⁴ This expenditure commitment includes a \$580 million allocation from the Federal Government.

Australian operating costs and royalties

- 160 The NSW and Queensland Governments have taken advantage of stronger coal prices to increase royalties. Royalties in NSW are now 6.2% (deep underground), 7.2% (underground) and 8.2% (open cut) of coal sales values, with Queensland rates being 7% up to a sales value of A\$100 per tonne and 10% on revenue above A\$100 per tonne. Coal royalties represent a significant cost to Australian coal miners.
- 161 In its 2011 budget announcement, the NSW Government recently indicated that it was looking to cover the cost imposed on it by the Federal Government's carbon tax by raising coal mining royalty rates. While the proposed new royalty rates have not been released, and consultation with the industry is currently taking place, the government has announced it is seeking to raise A\$950 million over four years. Further information on the NSW Government Statements on this matter are set out in Section VI.
- 162 Coal miners are increasingly in competition with other Australian mining sectors for skilled mining labour. As a result and partially due to a national skills shortage, mine wage inflation has been high. Costs for equipment have also increased as shortages and long lead times result in higher total costs. Australian coal production costs have also been impacted by high demurrage costs, caused by shipping vessels queued at Australian coal ports due to congestion in recent years. In combination, these factors have contributed to a significant increase in the cost of producing coal over the past five years, with the recent rainfalls only exacerbating this situation.

Coal prices

- 163 NSW and Queensland set world benchmarks for their respective coal types, with coal mined in NSW primarily being thermal coal and in Queensland primarily metallurgical coal. Benchmark prices which were typically negotiated annually between Japanese customers and major Australian producers (Japanese benchmark prices) represent the highest class of coal. While benchmark pricing has been the predominant form historically, there have been some recent moves towards contracts related to spot coal markets. In addition, metallurgical coal prices are now primarily based on quarterly based contracts, having regard to spot prices.
- 164 The hard coking coal benchmark price is generally set by Australian suppliers and most often by the largest supplier of hard coking coal, the BHP Billiton / Mitsubishi Development Alliance (BMA Alliance). Most other hard coking coals are then sold at a minor discount to this benchmark price, depending on quality relativities to the benchmark coal. Semi-hard, semi-soft and PCI coal prices are also negotiated at a discount to the hard coking coal price depending on market dynamics at the time. RTCA and Xstrata Coal, the significant exporters of Australian thermal coals, tend to lead negotiations on behalf of Australian thermal coal producers.
- 165 In a bid to add flexibility to the coal contract process, quarterly based contracts indexed to spot prices were introduced by BHP Billiton for its metallurgical coal contracts beginning 1 April 2010, and replaced annual contracts from this date. This move was quickly embraced by other Australian metallurgical coal producers and quarterly contracts are now the primary contract form for metallurgical coals³⁵.

³⁵ In late August 2011, however BHP Billiton indicated that it had progressed around 50% of its coking coal sales from quarterly to monthly pricing, with work continuing on a derivative (futures) pricing market.

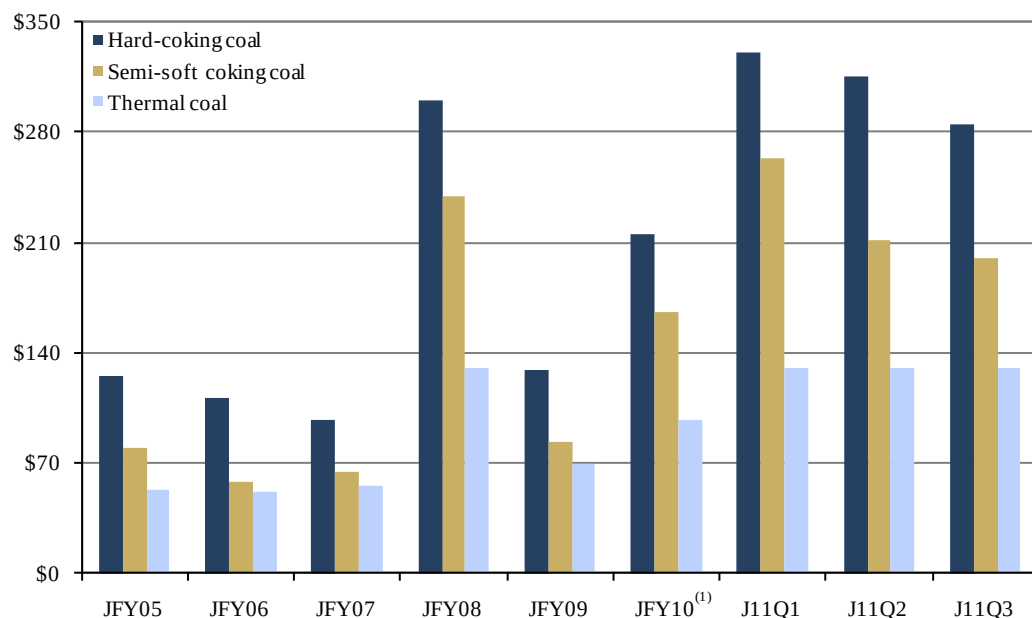
Historical coal prices

166 As discussed above, demand for coal is primarily influenced by the power generation and steel industries. Whilst power generation is more stable than steel production, both industries are reflective of the general health of the global economy. Supply is dependent on mine production and adequate coal infrastructure (rail, port etc.). In recent times supply has been constrained due to both a lack of infrastructure and a lack of historical investment. In addition, a number of other factors also impact coal prices, such as:

- (a) the quality of the coal (and energy content of thermal coal), which may result in the price received being a premium or discount to benchmark prices
- (b) the availability and price of alternative fuels and energy sources (thermal coal)
- (c) adverse weather and natural disasters
- (d) the proximity, capacity and cost of transportation
- (e) domestic and foreign government regulations and taxes, including those establishing air emission standards for coal-fuelled power plants.

167 Metallurgical coals have recently moved to a quarterly pricing system, while thermal coals are still based on annual negotiations. Japanese benchmark coal prices that have resulted from the price negotiations are set out below³⁶:

Coal prices (US\$/tonne)⁽¹⁾
Japanese fiscal year



Note:

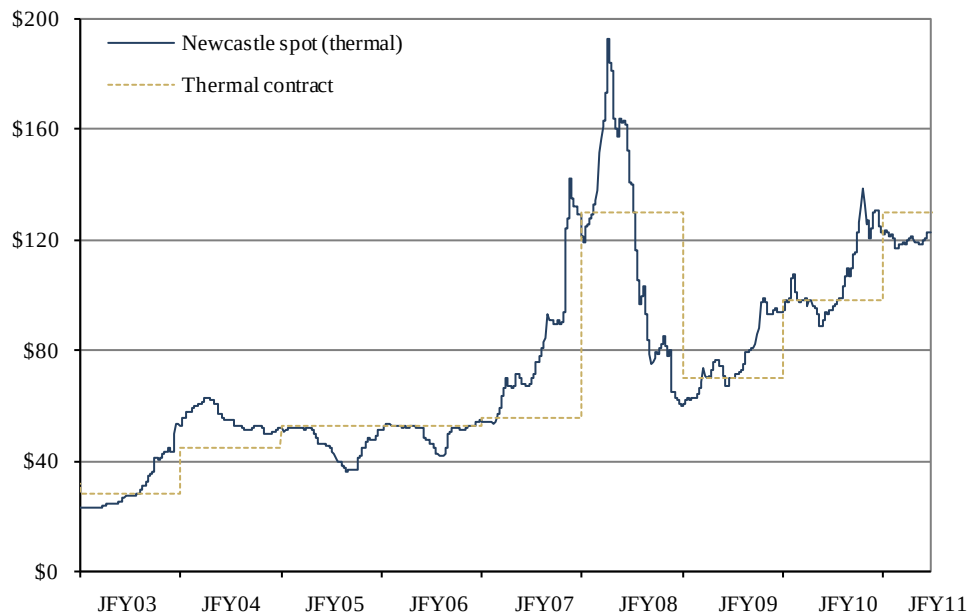
1 Represents the average prices for JFY10.

³⁶ The semi-soft coking coal price for quarter ending 31 December 2011 has yet to be negotiated and as such the price for semi-soft coking coal in the chart below reflects an estimated price of US\$200 per tonne.

- 168 The most notable developments in recent years were the pricing outcomes for the Japanese fiscal years JFY05 (to 31 March 2006), JFY08, JFY09 and JFY10. In JFY05, a strong global economy and increased Asian imports combined with limited supply, raised prices significantly above the previous year. In subsequent years the volatility in coal prices rose markedly.
- 169 In JFY08 strong demand and supply side constraints such as those listed below provided the impetus for the most substantial and unprecedented coal price rise in history. Supply constraints included:
- (a) severe blizzards in China forcing China to suspend all coal exports in order to guarantee local supply
 - (b) electricity black-outs in South Africa that took mining equipment offline, hence impacting production. The Government power monopoly also re-directed coal destined for export to domestic use
 - (c) floods in Australia (Northern Queensland), the largest export coking coal source in the world.
- 170 The GFC and the reduction in coal demand that followed resulted in a large fall in Japanese benchmark prices for JFY09, as was the case for most commodities. However, as the year progressed coal imports into China increased significantly whilst its coal exports reduced. Chinese total coal imports were 84Mt higher than in 2008, with thermal and metallurgical coal imports increasing 57Mt and 27Mt respectively. As demand from developing economies began to return, demand for seaborne coal once again outpaced supply and resulted in significantly higher JFY10 coal prices.
- 171 As noted above metallurgical coal prices are now generally settled on a quarterly basis, with the quarter ending 31 December 2011 settled at US\$285 per tonne for hard coking coal. Prices for semi-soft coking coals for the December quarter have not yet settled, however we note that the price of LV PCI coal settled at US\$208 per tonne and semi-soft coking coals have been priced at an average 4% discount to LV PCI coal prices since quarterly pricing was introduced. The thermal coal contract price for JFY11 was settled at US\$130 per tonne. Spot prices for the benchmark thermal coals³⁷ have subsequently been above US\$130 per tonne, but are currently just above US\$120 per tonne, as shown below:

³⁷ Newcastle benchmark, 6,700 Kcal gross air dried (GAD) FOB thermal coal.

Thermal coal prices – contract and spot (US\$ / tonne)
Japanese fiscal year



Source: ABARE, Bloomberg.

Coal price outlook

- 172 Infrastructure and related issues remain in the short-term, with the potential to maintain pressure on the supply of traded thermal coal over the medium term. Furthermore, many of the large global coal exporters (including Indonesia, China and Russia) are diverting increasing proportions of production to domestic uses. The International Energy Agency (IEA) forecasts that coal demand will grow 40% over the next 20 years, while in the short to medium term demand is also likely to remain strong on the back of Asian demand, in particular from China and India.
- 173 In the six months to 30 June 2011 global steel production increased 7.6%, with production levels set to exceed 1.5 billion tonnes per annum in 2011³⁸. Steel production in 2010 grew 15% over 2009, reflecting the rebound in industrial demand in developed nations as government stimulus programmes impacted positively on economies and consumer demand increased off previously low levels. The relative scarcity of metallurgical coals, the recent floods in Queensland and infrastructure constraints are likely to maintain pressure on supply in the short to medium term.
- 174 There is widespread belief that longer term growth prospects for both metallurgical coal and thermal coal are likely to remain strong. Some forecasters are predicting that 50Mtpa of new coal producing capacity will be required to be developed each year to satisfy growth in demand, with others forecasting a supply deficit of 50Mt of coal by 2015. In addition, on-going development will be required to replace existing production capacity as resources are depleted at existing mines. Whilst Chinese growth remains the single most important factor, India and other Asian markets are expected to also grow strongly.

³⁸ ABARE, Australian Commodities, December 2009.

Regulation and taxes

- 175 The resource industry and in particular the coal industry in Australia is facing ever increasing regulation for environmental management. By way of example carbon emissions, mineral taxes and restricting mining on strategic cropping land are all issues that have recently been publicly debated. The lead time from securing mine leases to commencement of production is now in excess of five years, with the environmental permit process becoming more complex due to an increase in requirements to evaluate and mitigate both social and environmental impact. For example, the introduction of stricter water management requirements for mine sites in Queensland has not only increased capital expenditures, but also increased the risk associated with maintaining a licence to operate.

Carbon pricing and environmental issues

- 176 Coal mining releases methane, one of the major greenhouse gases. Some methane gas emitted from mines is converted to electricity and used to power mines or on-sold to electricity grids. Coal power stations also emit high levels of greenhouse gases like carbon dioxide, nitrogen dioxide and sulphur dioxide. While there are technologies being advanced that have the potential to lower emissions from coal power stations, such as carbon capture technologies that store the carbon underground rather than releasing it into the atmosphere, these technologies have not been widely used to date generally due to cost.
- 177 The Federal Government previously sought to implement a carbon reduction system consistent with the accords of the Kyoto Protocol. In December 2009 the Government released its Carbon Pollution Reduction Scheme (CPRS) White Paper in which it set out the design of the CPRS that it intended would take effect from 1 July 2010. The CPRS White Paper followed the release of the Green Paper and confirmed the Government's commitment to the long-term goal of reducing Australia's greenhouse gas emissions by 60% of 2000 levels by 2050. The medium term targets are a reduction in greenhouse gas emissions by 2020 of between 5% and 15% of the 2000 level.
- 178 The White Paper allocated A\$2.15 billion over five years to the Climate Change Action Fund (CCAF) to assist businesses to adjust to the CPRS. The CCAF had four streams, one of which was assistance for coal mining involving the promotion of emissions abatement and specific transitional assistance. Adjustment assistance of up to A\$250 million over five years was proposed to be provided to affected coal mining operators to promote emissions abatement. A further A\$500 million over five years was allocated as direct assistance to gassy coal mines to assist them adjust while they explored abatement opportunities.
- 179 In April 2010 the Government announced it would delay the implementation of the CPRS until after 2013 when the current Kyoto Protocol commitment period ends. By this time it is expected that there will be greater clarity on the actions of other major economies including the US, China and India.

- 180 On 31 May 2011 an update of the Garnaut Climate Change Review was released. This review was followed on 10 July 2011 by the release of the Federal Government's Clean Energy Future Agreement³⁹ and Clean Energy draft legislation on 28 July 2011. These policies outline a two stage carbon pricing policy mechanism comprising a fixed price carbon period effective 1 July 2012, with a transition to an emissions trading scheme from 1 July 2015.
- 181 In the first stage the proposed fixed price is A\$23 per tonne of emitted CO₂, rising by 2.5% in real terms for each of the years ending 30 June 2014 and 2015. In the second stage the carbon pricing mechanism will move to a flexible, market-driven approach where a "cap and trade" system⁴⁰ will be adopted. For the first three years of the flexible pricing stage there will be a carbon permit floor price of A\$15 (rising at 4% per annum in real terms) and a ceiling price of A\$20 above the "expected international price"⁴¹ (rising by 5% per annum in real terms).
- 182 The point of obligation is a threshold of "covered" emissions (being emissions in respect of which carbon permits must be surrendered) greater than 25 kilo-tonnes of CO₂ from a single facility (Coal & Allied's current operating mines are all above this threshold, in part due to the relative size of these operations). The covered emissions produced by a facility (that is, the mine site) will primarily be fugitive emissions being mainly methane gas from open cut or underground coal mines. Other covered emissions relate to those from landfill mine site facilities and those associated with waste water treatment. The carbon tax legislation does not tax combustion of liquid petroleum fuel, or other transportation fuels that have previously been subject to a duty or excise⁴², but emissions arising from these sources will be taxed via adjustments to the relevant duty or excise.
- 183 The carbon pricing scheme includes structural adjustment assistance to the mining industry as follows:
- (a) **Coal Sector Jobs Package** – to provide A\$1.3 billion over six years to gassy coal mines (that is, mines with fugitive emissions that account for more than 0.1 tonnes of CO₂ per tonne of saleable coal, which will not include any Coal & Allied mines). The Government will cover 80% of fugitive emissions from these mines above the threshold
 - (b) **Coal Mining Abatement Technology Support Package** – to provide A\$70 million of grants over six years to assist mines implementing abatement technology (on a co-contribution basis).
- 184 However, doubt still remains as to whether the legislation package will pass in its current draft form (or at all) through both houses of parliament, which is planned for late calendar year 2011.

³⁹ The document is named "*Securing a Clean Energy Future*" and has the support of the Multi-Party Climate Change Committee (MPCCC) on most issues.

⁴⁰ The Government will set annual caps on the number of carbon permits to be issued and the price of those permits will be determined by the market forces of supply and demand. Liable entities will be provided with the scheme cap five years beforehand on a rolling basis.

⁴¹ We understand this refers to the price of certified emissions units under the Kyoto Protocol Clean Development Mechanism. The starting price will be set by 31 May 2014.

⁴² Emissions exclude use of diesel for on-site electricity generation, off road transport, explosives and LPG or CNG as a fuel source for generation.

Minerals Resource Rent Tax

- 185 The Mineral Resource Rent Tax (MRRT) was proposed by the Australian Federal Government on 2 July 2010, after the Resource Super Profits Tax (RSPT) failed to gain widespread support. The Government established a Policy Transition Group (PTG) that provided a report on the detailed technical design of the new resource tax arrangements in December 2010. On 24 March 2011 the Government accepted all recommendations of the PTG, which formed the basis of the design of the MRRT draft legislation that was released for consultation on 10 June 2011. After a period of consultation, a further exposure draft was released on 18 September 2011.
- 186 The MRRT targets only coal and iron ore projects, as opposed to all mining resources as was the case for the RSPT. The MRRT purports to tax the resource as close as practically possible to the point of extraction (i.e. at the “mine gate”) to ensure only the value of the resources extracted is taxed (less all “mining expenditure”⁴³ to that point). Conceptually, any value added processing or coal and iron ore mining unrelated activities (such as downstream processing or infrastructure) are not taxed under the MRRT.
- 187 The tax is proposed to commence on 1 July 2012 with a headline rate of 30%. However, an extraction allowance of 25% is applied to acknowledge the mining expertise and know-how required to extract the resource, which effectively reduces the MRRT rate to 22.5%. In addition the corporate tax rate is proposed to reduce to 29%⁴⁴ for the year ending 30 June 2014 (the reduction ostensibly being funded by the MRRT).
- 188 The other key features of the MRRT are as follows:
- (a) with the policy intent of recognising investments made prior to the announcement of the MRRT, existing investments receive a “starting base” of either:
 - (i) the market value of the existing investment as at 1 May 2010 (including the value of the mining rights) plus any capital expenditure incurred from 2 May 2010 to 1 July 2012. This starting base is depreciated over the remaining effective life of the asset (up to a maximum period of 25 years). Unused deductions are uplifted at CPI
 - (ii) the written down book value of the project assets as at the latest reported date prior to 1 May 2010 (excluding the value of the mining rights), plus any capital expenditure incurred from 2 May 2010 to 1 July 2012. This starting base is uplifted at the government bond rate plus 7% to 1 July 2012 and is depreciated over a period of five years using an accelerated declining balance depreciation method⁴⁵

⁴³ Being expenditure on moving the resources to the run-of-mine stockpile, expenditure on managing and maintaining the stockpile and preliminary crushing for the purpose of moving the resource to the stockpile.

⁴⁴ The MRRT headline rate will remain at 30%. The proposed company tax rate for small companies is 28% from the year starting 1 July 2012.

⁴⁵ The write off rates are 36%, 37.5%, 37.5%, 60% and 100% over the respective five years. Furthermore, unused deductions from this method can be uplifted at the Government Bond rate plus 7%.

- (b) a “royalty allowance” effectively provides credits for State royalty payments which can only be used to reduce taxable MRRT profit. Accordingly, if no MRRT liability is incurred in the year the royalty is paid the credit for State royalty payments cannot be used in that year
- (c) unused MRRT losses⁴⁶ and/or unused credits for State royalty payments are uplifted at the Government Bond rate plus 7% for use in future periods
- (d) new capital expenditure occurring after 1 July 2012 is deductible in full in the year incurred (as opposed to being depreciated)
- (e) resource profits below A\$50 million per annum will not incur an MRRT liability
- (f) the MRRT will allow transferability of losses between Australian iron ore and Australian coal projects (i.e. but not across other commodities) within a wholly owned group to the extent that the other project has sufficient mining profits to absorb the remaining mining losses once it has applied its own royalty, mining loss and starting base allowances. Unused royalty credits and unused starting base allowance are not transferable).

189 We note that the Resource Tax Implementation Group, which comprises representatives of industry, the tax profession and government officials, is currently in consultation with the resource sector and considering submissions made on the MRRT draft legislation. The final form of the MRRT, to be voted upon in Parliament before the end of calendar year 2011 or in early 2012 is yet to be resolved. Therefore, the impact of the proposed MRRT is still uncertain.

⁴⁶ The exception is the portion of the loss attributable to unused starting base allowance.

V Valuation approach

Valuation methodologies

- 190 Regulatory Guide 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Methodologies selected

- 191 The market value of Coal & Allied has been assessed by aggregating the market value of the mine operations, together with the realisable value of any surplus assets and deducting net borrowings.
- 192 Given the finite life of mining operations and the expectation of increasing coal production over time we have selected the DCF methodology as the primary methodology when valuing Coal & Allied.
- 193 Under the DCF methodology the value of the mining operations is equal to the net present value (NPV) of the estimated future free cash flows (after tax) including, where applicable, a terminal value at the end of the forecast period. In order to arrive at the NPV the future cash flows and terminal value are discounted using a discount rate which reflects the risks associated with the cash flow stream.

Cross-check to alternative valuation criteria

- 194 While we consider the DCF methodology to be the most appropriate valuation methodology, it is important to cross-check the valuation against other valuation methodologies used in both the mining industry and equity markets to assess the price that might be paid for 100% of Coal & Allied. Accordingly, we have also considered the value of Coal & Allied by reference to:
- (a) the listed market price of Coal & Allied shares prior to the announcement of the indicative proposal from Rio Tinto on 8 August 2011 (i.e. the first day of trading prior to the announcement of the indicative proposal from Rio Tinto), adjusted for an appropriate takeover premium
 - (b) the EBITDA multiples of other Australian listed coal companies, and the EBITDA multiples implied by recent transactions in the Australian coal industry
 - (c) the value per tonne of marketable reserves and resources implied by the listed coal company values and transactions in the Australian coal industry.
- 195 As some of these alternative methodologies assess value by reference to annual profitability or annual saleable production it can be argued that they should not be used to assess the value of a finite asset such as a mine. However, given the abundance of coal resources in Australia and the very long life of Coal & Allied's mines, in our opinion, it is appropriate to consider these methodologies, albeit as a secondary rather than primary approach.

VI Valuation of Coal & Allied

DCF valuation

- 196 As set out in Section V we have selected the DCF methodology as the primary methodology when valuing Coal & Allied. Under the DCF methodology the value of the mining operations is equal to the net present value (NPV) of the estimated future free cash flows (after tax). In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 197 Our DCF analyses are based on the free cash flow projections derived based on input from AMC Consultants Pty Limited (AMC) on technical mining matters including the reliability of reserve and resource estimates, mining plans, recovery rates and the appropriate operating and capital cost estimates. AMC's report on these matters is included in Appendix J. AMC's assessments have been undertaken in accordance with the Code and Guidelines for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Mineral Securities for Independent Expert Reports.
- 198 The DCF analyses therefore reflect AMC's views on technical mining matters and our opinion on future coal prices, exchange rates, discount rates and other economic and valuation parameters.
- 199 It should be noted that in respect of these projections:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) future profits and cash flows are inherently uncertain. This is particularly so as coal prices have varied significantly in recent years
 - (c) the achievability of these projections is not warranted or guaranteed by Coal & Allied, AMC or LEA, as they are projections based fundamentally on predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management; and
 - (d) actual results may be significantly more or less favourable than projected.
- 200 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments,⁴⁷ capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the mining assets to be determined irrespective of the level of debt funding employed. Our DCF valuation has been undertaken in nominal (inflation adjusted) terms using nominal cash flows and discount rates.
- 201 The free cash flow projections for Coal & Allied's operations cover the period to 31 December 2040, and reflect:
- (a) Coal & Allied's existing mining operations at HVO, MTW and Bengalla
 - (b) mine production at Mount Pleasant from 2014

⁴⁷ Also calculated on an ungeared basis.

(c) increases in production levels to utilise available port capacity allocations.

202 To the extent that there are unmined resources at the end of the forecast period in respect of any of the above mines / projects a separate value has been adopted (where appropriate) based on discussions with AMC. Such resources have been valued at between A\$0.375 to A\$1.00 per tonne of resource having regard to the nature of the resource⁴⁸, the time value of money, the risk associated with the resources becoming reserves, the potential for further resource / reserve increases and the possibility of higher port capacity becoming available in the medium to long term.

203 A separate value has also been assessed for the Oaklands deposit (which is not included in the DCF analysis).

Valuation of mining interests

204 We set out below our combined values for Coal & Allied's respective interests in its operating mines (HVO, MTW and Bengalla), the Mount Pleasant development mine and the Oaklands deposit⁴⁹:

Value of mining interests ^{(1), (2)}		
	Low A\$m	High A\$m
Total value	9,300	10,700

Note:

- 1 Prior to any corporate cost allocation.
- 2 Values attributed to Coal & Allied interest.

205 The wide range largely reflects the valuation sensitivity to changes in coal prices. Details of coal price and other key assumptions adopted for valuation purposes are summarised below.

Saleable production profile

206 Assumed saleable coal production tonnages attributed to Coal & Allied are shown below:

Coal & Allied share of saleable coal production									
	3mths								Total to 2040 ⁽²⁾
Year to 31 December	2011 Mt	2012 Mt	2013 Mt	2014 Mt	2015 Mt	2016 Mt	2017 Mt	2018 Mt	Mt
Saleable coal production	5.3 ⁽¹⁾	24.7	25.7	32.8	38.8	38.5	39.1	39.5	1,163.2

Note:

- 1 Represents estimated production for three months to 31 December 2011.
- 2 Total for 2011 to 2040 period.

⁴⁸ That is, whether the remaining resource is measured, indicated or inferred.

⁴⁹ It should be noted that Coal & Allied has a small number of "legacy" contracts to supply coal at prices which are materially below current market prices. The impact of these contracts is reflected in our DCF value.

- 207 Coal & Allied's share of saleable coal production in the years ended 31 December 2009 and 2010 and in the six months ended 30 June 2011 was 18.9Mt, 18.8Mt and 9.9Mt respectively. Consistent with AMC's advice (and Coal & Allied plans) our valuation model assumes production from Coal & Allied's existing operations is increased to utilise available port capacity allocations at PWCS and NCIG.
- 208 Current mine expansions include increases in saleable coal production from:
- (a) HVO – 10.9 Mt in 2010 to a 14Mt rate during 2012
 - (b) MTW – 8.9 Mt in 2010 to a 12Mt rate during 2012 (100% basis)
 - (c) Bengalla – 5.5 Mt in 2010 to a 7.5Mt rate during 2012 (100% basis).
- 209 In addition, saleable production from the Mount Pleasant development mine is projected to commence in 2014 and ramp up to annual saleable production of around 8.5Mtpa.
- 210 Due to the significant reserves and resources at existing mining operations further expansions are expected to be implemented. As formal decisions by Coal & Allied with respect to mine expansions in the medium to long-term have not been made we have undertaken (in conjunction with AMC) sensitivity analysis on the timing and mine expansion options available within the constraints of available port capacity.
- 211 For the purpose of our calculations we have assumed available port capacity is initially equal to 85% of Coal & Allied's actual port capacity allocations (consistent with recent experience), but ramps up to 95% of actual port capacity allocations over time. Actual throughput at PWCS has historically been less than nameplate capacity due to, inter-alia, weather related events (which can impact mine production) and problems with transport logistics. However, a number of initiatives⁵⁰ have been implemented to improve the efficiency of the HVCC which is expected to result in improved utilisation at the port.
- 212 A summary of total saleable coal production (at HVO, MTW, Bengalla and Mount Pleasant on a 100% ownership basis) over the period to 31 December 2040 compared with marketable reserves (also on a 100% ownership basis) is set out below⁵¹:

Saleable coal production and marketable reserves (100% ownership basis)	
	Mt
Assumed saleable production to 2040 ⁽¹⁾	1,389.8
Marketable reserves ⁽²⁾	1,008.4
Difference	381.4

Note:

- 1 Represents saleable production over the 2011 to 2040 period.
- 2 As at 31 December 2010.

⁵⁰ Including making individual producers more responsible for delays which they cause which impact other users.

⁵¹ For the reasons stated above these figures by mine cannot be disclosed.

- 213 As indicated above, total saleable coal production over the period to 31 December 2040 exceeds marketable reserves. However, in our opinion, the above production figures are appropriate having regard to the substantial level of measured and indicated resources in excess of current marketable reserves at each mine⁵², which totalled 1,269 Mt (on a 100% ownership and ROM basis) as at 31 December 2010⁵³.
- 214 AMC also reviewed the assumed production profiles in detail (by mine and pit) and concluded that the assumptions adopted, including assumed mine expansions, were reasonable. Further information on AMC's view in this regard is set out in Section 1.2 of AMC's Technical Expert's Report, which is included in Appendix J.

Ownership interests

- 215 Coal production and sales attributed to Coal & Allied reflects the following shares of total production and sales at each mining operation:

Share of attributable production	% interest
HVO	100.0
MTW	64.1
Bengalla	40.0
Mount Pleasant	100.0

- 216 The MTW coal operation reflects the combined interests of the Mount Thorley Co-venture joint venture and the Warkworth Associates joint venture. Coal & Allied holds an 80% interest in the Mount Thorley Co-Venture and a 55.574% interest in Warkworth Associates. In 2004 these two joint ventures entered into an OIA that resulted in the two joint ventures being managed as a single operation. Under the terms of the OIA export coal can be produced from either mine and is allocated between the two joint ventures based on a tonnage commitment ratio that is agreed at the beginning of each year. Since entering into the OIA the tonnage commitment ratio has been Warkworth Associates 65% and Mount Thorley Co-Venture 35%. This results in Coal & Allied receiving 64.1% of total production from the combined MTW operation⁵⁴.

Coal prices

- 217 A summary of the coal types currently mined and expected to be produced by Coal & Allied are set out below:

Coal & Allied – coal types produced	
Mine	Coal type
HVO	Thermal coal / semi-soft coking coal
MTW	Thermal coal / semi-soft coking coal
Bengalla	Thermal coal
Mount Pleasant	Thermal coal

⁵² Measured and indicated resources are additional to the reserves reported above. In addition, there are significant inferred resources at these mines (some 1 billion tonnes on a ROM basis).

⁵³ For the reasons stated above these figures by mine cannot be disclosed.

⁵⁴ Production costs are shared on the same terms as the tonnage ratio.

- 218 Accordingly, we set out below the benchmark prices for semi-soft coking coal and thermal coal adopted for valuation purposes. These prices were assessed based on our detailed review of analyst coal price forecasts, futures markets and other factors as set out in Appendix C:

Benchmark coal prices adopted for valuation purposes (FOB US\$/tonne in nominal terms)						
	3 mths to 31 Dec 11	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast ⁽²⁾ Long-term
Low case:						
Semi-soft coking coal	200 ⁽¹⁾	185	160	145	135	125
Thermal coal	130 ⁽¹⁾	120	120	110	105	100
High case:						
Semi-soft coking coal	200 ⁽¹⁾	200	173	157	146	135
Thermal coal	130 ⁽¹⁾	130	130	119	113	108
Semi-soft coking coal price premiums over thermal coal prices						
Low and high cases	54%	48%	33%	32%	29%	25%

Note:

- 1 Thermal coal prices reflect actual contract prices and semi-soft coking coal prices reflect estimated actual prices.
- 2 The long-term price is expressed in 2016 dollar terms (and is assumed to be maintained in real terms).

- 219 The above benchmark prices have then been adjusted slightly in each year of the model to reflect the impact of expected coal quality differences over the life of the mine (e.g. as different coal seams are mined).
- 220 The low case prices are broadly consistent with average analyst forecasts, whereas the high case prices are higher than average analyst forecasts reflecting, inter alia, the more optimistic outlook for coal prices generally held by industry participants and other indicia (e.g. futures markets etc⁵⁵).
- 221 As noted above the USD coal prices are projected to decline reflecting, in part, expectations of increased coal supply over the medium to long-term which will alleviate some of the current demand and supply imbalance. The above projections also assume the price premium for semi-soft coal above thermal coal prices reduces over time to longer term historical levels (as the current tight market conditions for metallurgical coal subsides).

Foreign currency rates

- 222 Our assessment of the AUD:USD exchange rates that we consider appropriate for the purpose of our valuation of Coal & Allied is based upon a blended analysis of forward market estimates and long-term (and in some instances short-term) historical foreign exchange trends. We have relied upon the actual AUD:USD forward rates for the purpose of determining the appropriate short-term AUD:USD exchange rates, as these reflect the actual unbiased rates at which currency transactions can be locked in today.

⁵⁵ Refer Appendix C.

223 We have adopted a long-term exchange rate (i.e. for periods beyond FY16) of A\$1.00 = US\$0.82 to A\$1.00 = US\$0.86. In our opinion, these rates are appropriate long-term rates for valuation purposes. Further information on the reasons for our AUD:USD exchange rate assumptions are set out in Appendix D.

224 The AUD:USD exchange rates adopted for valuation purposes are as follows:

AUD:USD exchange rate assumptions						
	3 mths to 31 Dec 11	2012	2013	2014	2015	Long-term
Low	1.00	0.96	0.92	0.88	0.85	0.82
High	1.04	1.00	0.96	0.92	0.89	0.86

225 We note that since the above analysis was undertaken (on 20 September 2011) global equity markets, commodity prices and the AUD:USD exchange rate have been very volatile. Due to, in particular, heightened concerns regarding the European sovereign debt crisis and its impact on funding costs and global economic growth (and the repatriation of investment funds back into USD as a result of this market uncertainty), the AUD:USD exchange rate fell below parity (but has since rebounded).

226 Accordingly, we have considered whether our AUD:USD exchange rate assumptions should be revised. In this regard we note that:

- (a) due to the strong correlation between USD denominated Australian export commodity (and coal) prices and AUD:USD exchange rates these variables should be assessed on a consistent basis
- (b) while the price of coal is denominated in USD the relevant price for valuation purposes is the price received by Coal & Allied in AUD. Due to the strong correlation referred to in (a) the AUD price received for export coal is less volatile than the USD price⁵⁶
- (c) the recent fall in the spot AUD:USD exchange rate has coincided with declines in short-term commodity prices. Accordingly, any adjustment to our short (and medium) term AUD:USD exchange rate assumptions would also result in an adjustment to short (and medium) term USD denominated coal prices, the net effect of which (in terms of the short and medium term AUD denominated coal prices) would not be material
- (d) our opinion on long-term coal prices and the appropriate long-term AUD:USD exchange rate (being the key value drivers) are not materially impacted by short-term events.

227 In our opinion therefore, the recent volatility in USD commodity prices and AUD:USD exchange rates does not require any revision to our implied AUD denominated coal price assumptions.

⁵⁶ For example, as commodity prices increase the AUD:USD exchange rate generally rises. As a result the AUD equivalent of export proceeds may not change materially.

Cash operating costs

- 228 Cash operating costs have been assessed by AMC for each mine for each year. Average cash operating costs per saleable tonne of coal produced in real terms are estimated to be A\$51.50 per saleable tonne over the forecast period. This reflects a weighted average across the four mines (on a 100% ownership basis) as individual mine operating costs are commercially sensitive and are unable to be disclosed. This is slightly lower than current cash operating costs and reflects, inter-alia, the lower cash operating costs expected at the Mount Pleasant mine, the impact of expansions and reductions in port charges (in real terms) as surplus cash flow generated at port facilities is used to reduce coal handling charges⁵⁷.
- 229 Cash operating costs reflect overburden removal, ROM mining, washing and handling, site administration and rail and port costs. Royalties, carbon tax and head office corporate costs are not included in the above operating costs, but have been separately allowed for.
- 230 The carbon tax impost varies by mine, but averages around A\$3.80 per tonne of saleable production in real terms over the forecast period from 1 July 2012.

Capital expenditure

- 231 Capital cost estimates (on a 100% ownership basis) as projected by AMC over the period to 31 December 2040 are as follows:

Real capital costs estimates	
	A\$m
Project / growth capital expenditure (total)	6,851
Sustaining capital expenditure (average over forecast period – per annum)	238

- 232 Project / growth capital expenditure represents the estimated capital costs of expanding existing mine operations and the estimated capital cost of bringing the Mount Pleasant mine into production.

Inflation

- 233 As stated above our analysis has been undertaken in nominal terms, including allowances for inflation. For the purposes of our valuation we have adopted an inflation rate of 2.5% per annum, consistent with:
- the difference between long-term Australian Government bond yields (which reflect inflationary expectations) and Australian Government indexed bonds yields (which are quoted in real terms excluding inflation); and
 - the mid-point of the Reserve Bank of Australia's (RBA) target for inflation of between 2% and 3% per annum.

⁵⁷ Refer section "Investment in PWCS" below for further details.

Discount rates

234 The following nominal discount rates (after tax) have been adopted:

Discount rates (in nominal terms)	
	% per annum
HVO, MTW and Bengalla	10.6
Mount Pleasant	12.1

235 Our detailed analysis supporting the use of the above discount rates is set out in Appendix F. In summary the discount rates have been derived using the capital asset pricing model (CAPM) and the weighted average cost of capital (WACC) formulae using the following inputs:

WACC – nominal		
Parameters	HVO, MTW and Bengalla	Mount Pleasant
Beta	1.25	1.25
Market risk premium	6.0%	6.0%
Risk free rate	5.0%	5.0%
Cost of equity	12.5%	12.5%
Additional risk premium	-	2.0%
Adjusted cost of equity	12.5%	14.5%
Cost of pre tax debt (%)	7.0%	7.0%
Tax rate	29.0% ⁽¹⁾	29.0% ⁽¹⁾
Cost of post tax debt	5.0%	5.0%
Gearing	25.0%	25.0%
After tax nominal WACC	10.6%	12.1%

Note:

1 Assumed tax rate for 2014 and beyond.

236 We have applied an additional equity risk premium of 2.0% per annum when valuing the Mount Pleasant project. This reflects the greater risks associated with mines in development compared to existing mine operations.

State coal mining royalties

237 On 6 September 2011 the NSW State Government announced that coal royalties in NSW will be increased “to address the negative financial impacts on NSW of the carbon tax”. The NSW State Government also stated that the increase in coal royalties will only apply to firms that are subject to the Australian Government’s proposed MRRT, which therefore includes Coal & Allied. Current coal mining royalties in NSW are 6.2% for deep underground coal mines, 7.2% for underground coal mines and 8.2% for open cut coal mines.

238 While the NSW State Government did not announce the proposed new royalty rates⁵⁸, in its Budget Statement 2011-12 it stated that the proposed increase in coal royalties was estimated to increase coal royalties by A\$235 million in 2012-13, A\$244 million in 2013-14 and A\$465 million in 2014-15.

239 The NSW State Government also provided estimates of its projected mining royalty income (including the impact of the proposed coal royalty increase) over the period to 2014-15, and stated that around 95% of its royalty income was derived from coal.

240 Accordingly, we have estimated the increase in coal royalties implied from the above information, which is set out below:

NSW coal mining royalty rate assumptions					
		2012	2013	2014	2015
Year to 30 June		A\$m	A\$m	A\$m	A\$m
Projected royalty income ⁽¹⁾		1,768	2,128	2,215	2,351
Amount related to coal mining (around 95%)	[A]	1,680	2,022	2,104	2,233
Less estimate of amount raised by royalty rate increase		-	235	244	465
Coal mining royalties ⁽²⁾	[B]	1,680	1,787	1,860	1,768
Estimated increase in royalty rate	[A÷B]	-	13.1%	13.1%	26.3%

Note:

1 Including impact of royalty rate increase.

2 Excluding impact of royalty rate increase.

241 It should be noted that the above calculation may underestimate the proposed royalty rate increase because it assumes that the royalty rate increase would apply to all NSW coal mines. However, as stated above, the royalty rate increase will only apply to those coal mines which will be subject to the MRRT (being those companies with resource profits equal to or above A\$50 million per annum).

242 It should also be noted that the NSW State Government stated that it was “willing to discuss with the Australian Government proposals that recognise the impact of the carbon tax on NSW finances”. Accordingly, the full increase in coal royalty rates proposed may not eventuate.

243 However, we note that if the royalty rate increases set out above were implemented, the royalty rate on open cut coal mines would increase to around 10% in NSW. This would therefore mean that the royalty rate on NSW open cut coal mines would be consistent with the coal royalty rates paid in Queensland in the current coal pricing environment, as Queensland coal mining royalties are currently 10% on revenue above A\$100 per tonne⁵⁹.

⁵⁸ Legislation to implement the higher royalty rates will be prepared after the Australian Government finalised its carbon tax and MRRT legislation.

⁵⁹ On revenue up to a sales value of A\$100 per tonne the Queensland royalty rate on coal mines is 7%.

- 244 Given the above we believe it is appropriate to assume that coal mining royalties in NSW will be increased from current levels with effect from 1 July 2012. Consistent with the NSW State Government Budget estimates we have assumed that any increase would be staged with the full royalty rate increase being levied from 1 July 2014. For the purposes of our valuation we have assumed the following royalty rates are levied:

NSW coal mining royalty rate assumptions			
	2013	2014	2015 and beyond
Year to 30 June	%	%	%
Open cut mines	8.5 – 9.5	8.5 – 9.5	9.0 – 10.0
Underground mines	7.5 – 8.5	7.5 – 8.5	8.0 – 9.0
Deep underground mines	6.5 – 7.5	6.5 – 7.5	7.0 – 8.0

- 245 We have also considered the sensitivity of our valuation to the royalty rate assumed. However, it should be noted that MRRT (as currently proposed) allows a “royalty allowance” which effectively provides credits for State Government royalty payments which can be used to reduce any MRRT liability. As a result the increase in mining royalties is only expected to have an adverse impact on coal mining companies subject to the MRRT where the MRRT liability in a year is less than the royalties paid.

Federal taxes

- 246 As Coal & Allied will be subject to the MRRT our valuation reflects the impact of the MRRT from 1 July 2012 as currently proposed, the details of which are summarised in Section IV. In addition we have adopted a corporate tax rate of 29% for Coal & Allied from 2014⁶⁰ and beyond.

Investment in PWCS

- 247 As set out in Section III Coal & Allied has a 36.5% interest in PWCS, which operates the world’s largest coal handling port in Newcastle.
- 248 The return to shareholders in PWCS is limited to the payment of a fixed dividend, indexed for inflation. Cash inflows are derived from coal handling charges that are calculated on an annual basis to cover anticipated cash outflows, including the repayment of debt facilities which have financed the port. Any increase in the value of the equity in the port as debt is paid down is effectively shared by all users in the form of reduced coal handling charges due to future savings in interest costs, and no additional benefit is received by shareholders⁶¹.
- 249 This is also consistent with both the PWCS “charter” and “common user principles”, pursuant to which PWCS is committed to the long-term objective of minimising coal handling charges at the port for all users.

⁶⁰ Reflecting Coal & Allied’s 31 December year end.

⁶¹ When valuing Coal & Allied’s coal mining interests we have adopted future port charges at PWCS which are consistent with the principles outlined above.

- 250 As the only return to PWCS shareholders is the dividend⁶² we have valued Coal & Allied's interest in PWCS using the capitalisation of dividends approach. Under this methodology the value of the shareholding is equal to next year's dividend capitalised at an appropriate rate, as follows:

Capitalisation of future dividends approach

$$\text{Value} = D_1 / (r - g)$$

Where:

D_1	=	next year's dividend
r	=	required rate of return
g	=	growth in annual dividend

- 251 In the year ended 30 June 2011 Coal & Allied received a fully franked dividend of A\$10.9 million. Allowing for 2.5% inflation⁶³, ⁶⁴ results in an estimated dividend for the year ending 30 June 2012 of A\$11.2 million.
- 252 For valuation purposes we have applied a discount rate of 6.0% to 6.5% per annum, reflecting the low risk nature of an investment in PWCS shares. This low risk arises because the payment of the dividend (and all PWCS operating and financing costs) is recovered from port users under long-term take-or-pay agreements.
- 253 Assuming growth in future dividends of 2.5% per annum (being inflation) therefore results in the following value for Coal & Allied's shares in PWCS:

Value of PWCS		Low	High
		A\$m	A\$m
Estimated dividend in year ending 30 June 2012	[A]	11.2	11.2
Discount rate		6.5%	6.0%
Growth in annual dividends		2.5%	2.5%
Capitalisation rate ⁽¹⁾	[B]	4.0%	3.5%
Value of PWCS shareholding	[A] / [B]	280.0	320.0

Note:

- 1 This is a "growth in perpetuity" formula. Although PWCS has a finite expected life its operational capacity will be continually maintained and upgraded over time. The present value effect of adjusting for the ultimately finite life of PWCS is immaterial.

⁶² We understand that the shareholders in PWCS do not receive any preferential access to allocations of capacity at the port.

⁶³ Consistent with the mid-point of the RBA's target range of 2.0% to 3.0% per annum.

⁶⁴ The dividend is indexed annually at the rate of inflation.

Other assets

- 254 Coal & Allied have a number of other assets which are not reflected in our DCF values. These assets include cash (net of borrowings), surplus land and the capitalised value of management and other fees receivable in relation to some of its joint ventures. We have assessed the value of these other assets at between A\$220 million and A\$235 million.

Corporate costs

- 255 Corporate costs of around A\$22.0 million (before tax) are incurred annually. As these costs are not reflected in our DCF values of the coal mining operations we have deducted the capitalised value of these after tax costs in our valuation. Based on the DCF methodology and a discount rate of 10.6% per annum (equal to the rate applied when valuing Coal & Allied's existing coal mining operations) we have adopted a value for future corporate costs of negative A\$140 million to A\$170 million.

Shares on issue

- 256 As set out in Section III Coal & Allied has 86.6 million fully paid shares on issue. There are no other securities or employee options on issue. While Coal & Allied's senior management and employees participate in a number of share and option plans these are administered by Rio Tinto and involve the issue of shares and options over Rio Tinto shares rather than Coal & Allied shares. The cost of these plans is then recharged by Rio Tinto to Coal & Allied and is included in corporate costs above.

Value of Coal & Allied shares

- 257 On this basis our assessed value of Coal & Allied shares on a 100% controlling interest basis is as follows:

Coal & Allied – valuation of 100% controlling interest		
	Low A\$m	High A\$m
Value of coal mining interests ⁽¹⁾	9,300	10,700
Present value of corporate costs	(170)	(140)
Enterprise value	9,130	10,560
Investment in PWCS	280	320
Other assets (including net cash)	220	235
Value of equity	9,630	11,115
Shares on issue (m)	86.6	86.6
Value per share (A\$)	\$111.20	\$128.35

Note:

- 1 Representing the value of Coal & Allied's interests in the HVO, MTW and Bengalla operating mines, the Mount Pleasant development project and the Oaklands project.

Sensitivity analysis

258 The value of Coal & Allied shares is particularly sensitive to the coal price, foreign exchange rate and discount rate assumptions selected. However, it should be noted that there is a strong correlation between the AUD:USD exchange rate and USD commodity prices. In the long-term it is therefore unlikely that high USD coal prices will occur at times of low AUD:USD exchange rates or that low USD coal prices will occur at times of high AUD:USD exchange rates. Accordingly, we believe it is more appropriate to show the sensitivity in value to movements in the coal price implied in AUD terms.

259 We have therefore applied the following sensitivities to our values:

- (a) discount rates ranging +/- 0.25% and 0.5%
- (b) coal prices +/- A\$2.50, A\$5 and A\$10 per tonne (inflation adjusted from 2017).

260 A summary of these sensitivities is set out below:

Sensitivity of Coal & Allied share value to coal prices and discount rates (A\$ value per share)					
	-0.50%	-0.25%	Base rates	+0.25%	+0.50%
Discount rate	A\$	A\$	A\$	A\$	A\$
Coal pricing scenarios:					
Plus A\$10 per tonne	153.83	150.10	146.51	143.06	139.74
Plus A\$5 per tonne	140.00	136.58	133.30	130.14	127.10
Plus A\$2.5 per tonne	132.88	129.64	126.51	123.51	120.62
Mid-point of A\$ coal prices adopted	125.74	122.66	119.78	116.84	114.10
Minus A\$2.5 per tonne	118.56	115.65	112.85	110.15	107.56
Minus A\$5 per tonne	111.37	108.63	105.98	103.44	101.00
Minus A\$10 per tonne	96.92	94.51	92.19	89.96	87.82

261 Consistent with coal projects generally (where output is primarily for export purposes), the table above highlights that movements in AUD coal price forecasts have the ability to significantly impact the value of Coal & Allied, both positively and negatively.

Valuation cross-checks

Pre-announcement share trading range

262 We have cross-checked for reasonableness our assessed value to the listed market price of Coal & Allied shares. We note that:

- (a) the stock market value of Coal & Allied shares has been high, notwithstanding that 85.9% of the shares are held by Rio Tinto and Mitsubishi Development
- (b) Coal & Allied has a large market capitalisation and is well researched and analysed by share broking firms and institutional investors⁶⁵
- (c) significant information has been disclosed in relation to Coal & Allied's operations in its financial reports and stock exchange announcements

⁶⁵ As at 23 September 2011 a total of seven analysts provided earnings forecasts for Coal & Allied.

- (d) Coal & Allied has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning Coal & Allied which a reasonable person would expect to have a material effect on the price or value of Coal & Allied.

- 263 In order to cross-check our valuation of Coal & Allied shares we have therefore considered the listed market price of Coal & Allied shares up to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto), adjusted for:
- (a) a premium for control; and
 - (b) the material movement in stock market values generally between the date of the share price and the date of the announcement of Rio Tinto's indicative proposal. In this regard we note that S&P/ASX 200 Resources Index fell 10.8% and 14.2% over the one month and three month periods up to 5 August 2011 respectively.
- 264 The volume weighted average share prices for Coal & Allied in the one and three month periods up to 5 August 2011 (adjusted for the movement in the average S&P/ASX 200 Resources Index over the period and the Index on 5 August 2011) were A\$91.04 and A\$93.45 respectively (refer Section VII for detailed calculations).
- 265 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover, and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover).
- 266 Adding a 30% to 35% premium for control to these adjusted share prices would therefore result in a theoretical "control" value of A\$118 to A\$126 per share (which is consistent with our valuation range).

Earnings and other multiples

- 267 In assessing the reasonableness of our valuation we have also considered the EBITDA multiples and value per tonne of reserves and resources implied by our valuation. These multiples for Coal & Allied are shown below:

Coal & Allied – other valuation cross-checks		
	Low	High
Enterprise value (A\$m)	9,130	10,560
Average analyst forecast EBITDA for 2011 (A\$m)	971	971
Average analyst forecast EBITDA for 2012 (A\$m)	1,230	1,230
Total reserves (Mt) ⁽¹⁾	1,100	1,100
Total measured and indicated resources (Mt)	3,447	3,447
Total resources (Mt) ⁽¹⁾	4,357	4,357
Multiples		
EBITDA (2011)	9.4	10.9
EBITDA (2012)	7.4	8.6

Coal & Allied – other valuation cross-checks

	Low	High
Value per tonne of reserves (A\$/t)	\$8.30	\$9.60
Value per tonne of measured and indicated resources (A\$/t)	\$2.65	\$3.06
Value per tonne of resources (A\$/t)	\$2.10	\$2.42

Note:

- 1 Attributed reserves and resources only (i.e. Coal & Allied's share of total reserves and resources) as at 31 December 2010.

- 268 We set out in Appendices G and H the EBITDA multiples and reserve and resource multiples for other listed coal companies and recent transactions in the coal sector. The multiples implied from the larger coal transactions in Australia in recent years are set out below:

Relevant transaction evidence

Date	Target	Types of Coal⁽¹⁾	Purchase price A\$m	Interest acquired %	Enterprise value / M&I			EBITDA	
					Reserve A\$/t	resource A\$/t	Resource A\$/t	Historical x	Forecast x
Jul 11	Macarthur Coal	HCC, LV PCI, TC	3,481	84.0	24.7	4.5	2.4	19.3	9.6
May 10	Centennial Coal	TC	2,832	100.0	8.8	1.5	1.3	16.5	8.0
Aug 09	Felix Resources	TC, PCI, SSCC	3,277	100.0	8.5	4.3	2.4	8.4	16.9
Jul 08	New Saraji Project	HCC, PCI	2,450	100.0	na	15.7	3.6	na	na
Jul 06	Excel Coal	HCC, SSCC, TC	2,325	100.0	6.5	2.0	1.8	12.4	9.6

Note:

- 1 Definitions of difference coal type terms are (HCC – Hard coking coal, LV PCI – Low volatile PCI coal, PCI – Pulverised coal injection coal, SSCC – Semi-soft coking coal, TC – Thermal coal).
na – not available.

- 269 With regard to the above, we note the following:

- Macarthur Coal** – the company has significant projects in development with a relatively large resource base and produces mostly metallurgical coal
- Centennial Coal** – a large proportion of the company's sales at the time of the transaction involved legacy contracts at prices below market prices (hence the lower values per resource shown above)
- Felix Resources** – had a large development pipeline, with thermal and semi-soft coals produced. This company is the most comparable of the above to Coal & Allied and the multiples implied above are consistent with those calculated in our valuation (with the exception of the forecast EBITDA multiple which reflected a major fall in coal prices, largely due to the GFC and its aftermath)
- New Saraji Project** – this was undeveloped hard coking coal resource sold to the BMA Alliance, with the transacted price reflecting the nature of the asset (i.e. a hard coking coal resource), high coal prices at the time and significant synergistic benefits with existing operations
- Excel Coal** – production was weighted equally between metallurgical and thermal coals.

- 270 The multiples implied from the Australian listed coal companies, along with a brief description of the location of the assets and type of coal produced is set out below:

Australian ASX listed coal companies								
Company	EV A\$m	Location	Types of coal ⁽¹⁾	Enterprise value / M&I			EBITDA	
				Reserve A\$/t	resource A\$/t	Resource A\$/t	FY11 x	FY12 x
Macarthur Coal ⁽²⁾	3,017.5	Bowen Basin	LV PCI, TC	18.0	3.2	1.7	14.0	7.0
New Hope Corp	2,470.7	South Qld	TC	3.8	1.6	1.2	10.0	9.3
Whitehaven Coal	2,683.0	Gunnedah Basin	SSCC, PCI, TC	6.7	3.4	1.8	18.2	8.4
Aquila Resources	1,985.2	Bowen Basin	HCC, PCI, TC	7.6	2.7	2.0	nm	nm
Aston Resources	2,010.2	Gunnedah Basin	SSCC, TC	6.6	5.4	3.9	nm	nm
Gloucester Coal	1,627.1	Gloucester Basin	SSCC, TC	5.9	1.6	1.1	16.4	8.0

Note:

- 1 Definitions of difference coal type terms are (HCC – Hard coking coal, LV PCI – Low volatile PCI coal, PCI – Pulverised coal injection coal, SSCC – Semi-soft coking coal, TC – Thermal coal).
 - 2 Calculated as at 11 July 2011, being the trading day prior to the joint takeover offer by Peabody Energy Corporation and ArcelorMittal S.A.
- nm – not meaningful.

- 271 Based on our review of the multiples for both the most relevant transactions and listed Australian coal companies we consider the above implied multiples for Coal & Allied to be reasonable. However, it should be noted that there are considerable limitations regarding the comparability of these valuation metrics to other coal mining companies due to, inter-alia:
- (a) the type and quality of coal produced – as metallurgical coals sell for higher prices per tonne than thermal coal, higher resource multiples for metallurgical coal companies would be expected even if all other variables (such as cost of production etc) were reasonably comparable
 - (b) the type of mining operation (e.g. open cut versus underground mines) – as underground mines are generally riskier than open cut mines
 - (c) the mix of operating and development assets – a greater proportion of development assets would be expected to result in higher EBITDA multiples due to the mines in development not yet contributing to EBITDA
 - (d) the availability of rail and port capacity and the ability to expand production to meet available capacity
 - (e) differences in unit costs of production – high cost producers would generally be expected to trade on lower EBITDA and reserve and resource multiples (reflecting their likely lower profit potential and greater risk to a downturn in coal prices)
 - (f) differences and varying stages of coal deposit development etc.

Conclusion

- 272 Having regard to the above we have concluded that our assessed value for Coal & Allied shares is reasonable and appropriate.

VII Evaluation of the Scheme

273 In our opinion, the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal. We have formed this opinion for the following reasons.

Assessment of the Scheme

Value of Coal & Allied

274 As set out in Section VI we have assessed the value of Coal & Allied between A\$111.20 and A\$128.35 per share.

Value of Scheme Consideration

275 If the Scheme is approved and implemented, Coal & Allied shareholders will receive A\$125.00 cash for each Coal & Allied share they hold on the Scheme Record Date, less the cash amount of any Special Dividend which Coal & Allied announces before the Scheme Record Date.

276 Under the Scheme Implementation Agreement, Coal & Allied intends to pay a fully franked Special Dividend of up to A\$8.00 per Coal & Allied share, subject to the necessary approvals for the Scheme being obtained and Coal & Allied obtaining a ruling from the ATO. Should a Special Dividend of A\$8.00 per Coal & Allied share be paid the cash consideration payable under the Scheme will be reduced to A\$117.00 per share.

277 Coal & Allied shareholders on the Record Date will therefore receive a total of A\$125.00 cash per share if the Scheme is implemented regardless of whether a Special Dividend is paid. Accordingly, we have assessed the Scheme Consideration at A\$125.00 per share. However, due to the benefit of franking credits we note that the value of the Scheme Consideration (and Special Dividend) to some Australian resident shareholders may be greater than A\$125.00 per share if a Special Dividend is paid.

Fairness

278 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of Coal & Allied			
	Low A\$ per share	High A\$ per share	Mid-point A\$ per share
Value of Scheme Consideration	125.00	125.00	125.00
Value of 100% of Coal & Allied per share	111.20	128.35	119.78
Extent to which the Scheme Consideration exceeds (or is less than) the value of Coal & Allied	13.80	(3.35)	5.22

279 As the Scheme Consideration lies within our assessed valuation range for Coal & Allied shares on a 100% controlling interest basis, in our opinion, the Scheme Consideration is fair to Coal & Allied shareholders when assessed based on the guidelines set out in RG 111.

Other qualitative factors

- 280 Pursuant to RG 111, a transaction is reasonable if it is fair. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.
- 281 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of Coal & Allied shareholders in the absence of a superior proposal.
- 282 In assessing whether the Scheme is reasonable and in the best interests of Coal & Allied shareholders LEA has also considered, in particular:
- (a) the extent to which a control premium is being paid to Coal & Allied shareholders
 - (b) the extent to which Coal & Allied shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
 - (c) the listed market price of the shares in Coal & Allied, both prior to and subsequent to the announcement of the proposed Scheme
 - (d) the likely market price of Coal & Allied securities if the proposed Scheme is not approved
 - (e) the value of Coal & Allied to an alternative offeror and the likelihood of a higher alternative offer being made for Coal & Allied prior to the date of the Scheme meeting
 - (f) the advantages and disadvantages of the Scheme from the perspective of Coal & Allied shareholders
 - (g) other qualitative and strategic issues associated with the Scheme.
- 283 These issues are discussed in detail below.

Extent to which a control premium is being paid

- 284 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company’s shares⁶⁶ three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
 - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
 - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
 - (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

⁶⁶ After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

285 We have calculated the premium implied by the Scheme Consideration by reference to the market prices of Coal & Allied shares (as traded on the ASX) for periods up to and including 5 August 2011 (being the trading day prior to the announcement of the indicative proposal from Rio Tinto).

286 We note that Coal & Allied shareholders received an interim dividend of A\$1.20 per share on 26 August 2011 and that the share prices prior to the ex-date of 8 August 2011 (including the periods over which we have measured the premiums implied by the Scheme Consideration) traded with an entitlement to this dividend.

287 Accordingly, to ensure the implied premium is calculated on an appropriate basis we have therefore adopted a total consideration of A\$126.20 per share for implied offer premium calculation purposes, determined as follows:

Total consideration for offer premium calculations ⁽¹⁾	
	A\$
Scheme Consideration ⁽²⁾	125.00
Coal & Allied's FY11 interim dividend	1.20
Total value to Coal & Allied shareholders	126.20

Note:

- 1 In our opinion it is more appropriate to calculate the implied offer premium using the pre-bid market price without adjustment for the interim dividend, and compare this price with the total value received by shareholders (being the Scheme Consideration and the interim dividend paid post announcement of the Scheme). This is primarily because, in our view, is a better measure of the "return" generated by shareholders over the period.
- 2 Excluding any separate benefit from franking credits.

288 The implied offer premium relative to Coal & Allied share prices up to 5 August 2011 is shown below:

Implied offer premium relative to recent Coal & Allied share prices		
	Coal & Allied share price A\$	Implied offer premium ⁽¹⁾ %
Scheme Consideration (including interim dividend)	126.20	
Closing share price on:		
5 August 2011 (the last trading day prior to the announcement)	91.00	38.7
5 July 2011 (1 month prior)	105.08	20.1
5 May 2011 (3 months prior)	109.61	15.1
Volume weighted average price (VWAP):		
1 month to 5 August 2011	101.04	24.9
3 months to 5 August 2011	104.35	20.9

Note:

- 1 Before allowing for any fall in the ASX.

289 However, we note that share market values have generally fallen materially over the above periods. For example, the S&P/ASX 200 Resources Index fell 10.8% and 14.2% over the one month and three month periods up to 5 August 2011 respectively. Accordingly, in our opinion, it is appropriate to calculate the implied premiums by reference to the market price of Coal & Allied shares adjusted to reflect the material movement in stock market values generally between the date of the share price and the date of the announcement of Rio Tinto's indicative proposal. As stated above, such an approach is also consistent with the basis upon which we have calculated the average control premiums paid in takeovers generally.

290 Adjusting the Coal & Allied share prices above for the movement in the S&P/ASX 200 Resources Index in the intervening period up to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto) results in the following offer premiums:

Implied offer premium adjusted for movement in market indices				
	Actual price A\$	Market movement %	Adjusted price ⁽¹⁾ A\$	Adjusted premium ⁽²⁾ %
Based on closing prices adjusted for market movement:				
5 August 2011	91.00	-	91.00	38.7
5 July 2011	105.08	(10.8)	93.68	34.7
5 May 2011	109.61	(14.2)	94.04	34.2
Based on VWAP prices adjusted for market movement:				
1 month period to 5 August 2011	101.04	(9.9)	91.04	38.6
3 month period to 5 August 2011	104.35	(10.4)	93.45	35.0

Note:

- 1 Price adjusted for market movement up to 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto).
- 2 Premium implied by Scheme Consideration (and interim dividend) above adjusted price.

291 Further, we note that share market indices generally have continued to fall and are lower at 23 September 2011 than they were on 5 August 2011. Accordingly, in the absence of the Scheme, in our opinion, it is likely that Coal & Allied shares would be trading below the levels indicated in the above table.

292 Having regard to the above, in our opinion, the Scheme Consideration provides Coal & Allied shareholders with a premium that is consistent with observed premiums generally paid in comparable circumstances. Accordingly, in our opinion, Coal & Allied shareholders are being compensated for the fact that 100% control of Coal & Allied will pass to Rio Tinto and Mitsubishi Development if the Scheme is approved.

Extent to which Coal & Allied shareholders are being paid a share of synergies

293 Rio Tinto and Mitsubishi Development currently hold a combined interest in Coal & Allied of 85.9%. As a result of acquiring the interests held by other shareholders pursuant to the Scheme some cost savings will be achieved, including the elimination of listed company costs and lower shareholder communication costs. However, the value of these cost savings are very minor relative to the value of Coal & Allied.

Recent share prices subsequent to the announcement of the Scheme

- 294 Shareholders should note that Coal & Allied shares have traded on the ASX in the range of A\$121.75 to A\$123.30 per share in the period since the Scheme was announced up to 23 September 2011. These share prices are lower than the Scheme Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge.

Likely price of Coal & Allied shares if the Scheme is not implemented

- 295 If the Scheme is not implemented we expect that, at least in the short-term, Coal & Allied shares will trade at a significant discount to our valuation and the Scheme Consideration due to the difference between the value of Coal & Allied shares on a portfolio basis and their value on a 100% takeover basis and recent falls in sharemarkets generally. In this regard we note that:

- (a) Coal & Allied shares last traded at A\$91.00 per share on 5 August 2011 (being the last trading day prior to the announcement of the indicative proposal from Rio Tinto)
- (b) the S&P/ASX 200 Resources Index was some 7.8% lower on 21 October 2011 than its index level on 5 August 2011.

- 296 If the Scheme is not implemented those Coal & Allied shareholders who wish to sell their Coal & Allied shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Scheme.

Likelihood of an alternative offer

- 297 In our opinion, there is no realistic likelihood of a higher offer or superior proposal to the Scheme being received prior to the Scheme meeting. This is because:
- (a) Rio Tinto and Mitsubishi Development hold a combined interest in Coal & Allied shares of 85.9%
 - (b) any alternative offer by another party for 100% of Coal & Allied could not succeed unless Rio Tinto agreed to sell its shareholding
 - (c) Rio Tinto has held its majority shareholding in Coal & Allied since 1993 and has not indicated any intention of selling it
 - (d) the Coal & Allied business is highly complementary to Rio Tinto's other businesses.

- 298 Further, we note that the Coal & Allied share price continues to trade below the Scheme Consideration. This indicates that market participants do not expect a superior offer or proposal to emerge.

- 299 Coal & Allied shareholders should also be aware that the Scheme Consideration of A\$125 per share represents an increase on the indicative proposal from Rio Tinto announced on 8 August 2011 of A\$122 per share.

Summary of opinion on the Scheme

300 We summarise below the likely advantages and disadvantages for Coal & Allied shareholders if the Scheme proceeds.

Advantages

301 The Scheme has the following benefits for Coal & Allied shareholders:

- (a) the Scheme Consideration of A\$125.00 cash per share is toward the high end of our assessed value range for Coal & Allied shares on a 100% controlling interest basis
- (b) the Scheme Consideration represents a significant premium to the recent market prices of Coal & Allied shares prior to the announcement of the indicative proposal from Rio Tinto on 8 August 2011
- (c) furthermore, the premium is consistent with observed premiums generally paid to target company shareholders in comparable circumstances
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of Coal & Allied shares is likely to trade at a significant discount to our valuation and the Scheme Consideration due to the portfolio nature of individual shareholdings and declines in equity values since the indicative proposal from Rio Tinto was announced.

302 Further, it should be noted that as Rio Tinto and Mitsubishi Development already own 85.9% of Coal & Allied shares there is no realistic likelihood that a competing offer for Coal & Allied shares will be received prior to the Scheme meeting.

Disadvantages

303 Coal & Allied shareholders should note that if the Scheme is implemented they will no longer hold an interest in Coal & Allied. Coal & Allied shareholders will therefore not participate in any future value created by the company over and above that reflected in the Scheme Consideration.

304 However, as our assessed value of Coal & Allied shares is consistent with the Scheme Consideration, in our opinion, the present value of Coal & Allied's future potential is reflected in the Scheme Consideration.

305 Shareholders should also note that the value of Coal & Allied shares is particularly sensitive to long-term coal price assumptions in AUD terms. While our valuation reflects long-term coal prices which are consistent with average analyst forecasts at the low end, and higher than average analyst forecasts at the high end, those shareholders which have a more optimistic view on long-term coal prices may consider the Scheme Consideration to be inadequate⁶⁷.

⁶⁷ We note however the impact of changes in the AUD:USD exchange rate and the importance of AUD coal prices rather than just USD coal prices and the (often significantly offsetting) increase in the value of the AUD at times of higher commodity prices.

Conclusion

- 306 Given the above analysis, we consider the acquisition of Coal & Allied shares under the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) in the absence of a superior proposal.
- 307 We note that Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development) must pass two resolutions in order for the Scheme to proceed (referred to in the Notice of Meeting and Scheme Booklet as the Section 611 Item 7 Resolution and the Scheme Resolution). In our opinion both resolutions are fair and reasonable to the Coal and Allied shareholders (other than Rio Tinto and Mitsubishi Development) for the reasons stated above.

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to Coal & Allied shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fixed fee of \$550,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:
- Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.
- 2 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan, who are each authorised representatives of LEA. Mr Edwards and Mr Lonergan have over 17 years and 35 years experience respectively in the provision of valuation advice.

Declarations

- 3 This report has been prepared at the request of the Proposal Response Committee to accompany the Scheme Booklet to be sent to Coal & Allied shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of Coal & Allied shareholders (other than Rio Tinto and Mitsubishi Development).

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Coal & Allied or Rio Tinto and Mitsubishi Development prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Coal & Allied agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Coal & Allied which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

Appendix C

Future coal prices

Overview

- 1 This Appendix sets out the basis for the estimated future coal prices we have used for the valuation of Coal & Allied. A summary of the coal types, both currently mined and those expected to be produced by Coal & Allied in the short to medium term are set out below:

Coal & Allied – coal types produced	
Mine	Coal type
HVO	Thermal coal / semi-soft coking coal
MTW	Thermal coal / semi-soft coking coal
Bengalla	Thermal coal
Mount Pleasant	Thermal coal

- 2 In order to assess the appropriate future coal prices to adopt for valuation purposes we have considered, inter alia:
 - (a) analysts' price forecasts for the 2012 to 2016 period and long-term price estimates
 - (b) industry participants' views as to the short and long-term outlook for coal prices generally
 - (c) China's import behaviour in the coal market, which has significant implications for future coal prices
 - (d) the forward prices quoted on futures markets
 - (e) the correlation between USD denominated coal and commodity prices and the AUD:USD exchange rate
 - (f) the long-term prices (in AUD) for coal used by independent experts conducting valuations of coal projects in Australia in recent years
 - (g) the quality and energy content of the coal produced (e.g. calorific value adjustments etc).

Analysts' forecasts

- 3 Forecast pricing is generally based upon the Japanese year end of 31 March. We have calendarised the adopted forecast prices to Coal & Allied's financial year end of 31 December. Historically, benchmark coal prices have generally been agreed for a one year term. However, as discussed in Section IV, with effect from 1 April 2010 metallurgical (coking) coal benchmark settlements have reflected quarterly pricing⁶⁸.

⁶⁸ We note that BHP Billiton has begun selling coal on a monthly basis, with about 50% of its coal customers switching from quarterly to monthly pricing.

Appendix C

- 4 Analysts' price forecasts for benchmark semi-soft coking coal and thermal coal are summarised below:

Coal price forecasts (FOB US\$/tonne in nominal terms)						
	3 mths to 31 Dec 11	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast ⁽³⁾ Long-term
Semi-soft coking coal:						
Low	200 ⁽²⁾	150	115	105	101	93
High	200 ⁽²⁾	217	198	182	163	144
Mean	200 ⁽²⁾	186	159	145	136	117
Median	200 ⁽²⁾	185	164	160	152	114
Number of analysts	Na	12	12	11	9	11
Thermal coal:						
Low	130 ⁽²⁾	96	91	85	83	80
High	130 ⁽²⁾	150	148	152	146	144
Mean	130 ⁽²⁾	127	121	112	106	103
Median	130 ⁽²⁾	130	120	105	100	98
Number of analysts	na	23	21	17	17	12

Note:

- 1 As at 20 September 2011.
 - 2 Thermal coal prices reflect actual contract prices and semi-soft coking coal prices reflect estimated actual prices.
 - 3 Analyst long-term price forecasts are shown in 2016 dollar terms.
- na – not available.

- 5 As indicated above, consistent with the expected significant supply response analysts forecast a reduction in coal prices over the next five years, with long-term prices (in USD terms) forecast to reduce from current high levels. This reflects a view that:
- (a) the present elevated price levels are largely the result of mismatches in:
 - (i) demand, which has been boosted by the on-going industrialisation of China, India and other developing nations; and
 - (ii) supply, which has been constrained by, inter alia, under-investment in necessary port and rail infrastructure and adverse weather events
 - (b) over the medium and long-term the supply of most commodities will increase, alleviating some of the current demand / supply imbalance. For example, Australia's coal export capacity is expected to rise by about 20% over the next three years⁶⁹ with the addition of requisite rail and port capacity.

⁶⁹ Source: Commodity Prices, Paper presented to the International Conference of Commercial Bank Economists, Saul Eslake, 23 June 2011.

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- 6 While prices may well be at elevated levels currently, in our view, longer term coal prices are likely to remain higher than the levels witnessed in the pre-mining boom period in order to provide adequate returns on incremental coal production, the cost of which will be impacted by factors including higher strip ratios, increasing mining equipment costs and lead times and costs associated with access to new rail and port infrastructure (in the absence of which incremental production would not be brought on-stream).
- 7 Furthermore, we note that analysts have generally consistently underestimated future coal prices⁷⁰ for thermal (yearly) prices and hard coking (quarterly) prices:

Broker forecast variance ⁽¹⁾				
Timeframe to actual contract setting	%	%	%	%
Thermal coal (yearly)	JFY08	JFY09	JFY10	JFY11
1 quarter prior	(35)	19	(13)	(9)
2 quarters prior	(46)	58	(19)	(19)
3 quarters prior	(54)	90	(22)	(19)
4 quarters prior	(59)	60	(26)	(22)
5 quarters prior	(62)	16	(17)	(28)
6 quarters prior	(62)	(1)	8	(34)
7 quarters prior	(63)	(17)	28	(35)
8 quarters prior	(65)	(29)	6	(39)
Hard coking coal (quarterly)	Mar 11	Jun 11	Sept 11	Dec 11
1 quarter prior	(4)	(14)	(9)	(2)
2 quarters prior	(1)	(32)	(16)	(7)
3 quarters prior	(0)	(31)	(28)	(15)
4 quarters prior	na	(32)	(27)	(22)

Note:

1 Analyst forecast prices above / (below) actual contract price in USD terms.

na – not available.

Source: LEA analysis.

- 8 We have also conducted the above analysis in AUD using the spot AUD:USD exchange rate prevailing at the date of the broker forecast and on the first day of the contract period. The conclusions drawn from this analysis were consistent with the above analysis.

Industry views

- 9 The major coal companies generally have a more optimistic outlook for long-term coal prices than analysts. Relevant comments from major industry participants are set out in Appendix E, with the common themes summarised below:
- (a) continued strong demand underpinned by the industrialisation and urbanisation of China, India and other emerging economies
 - (b) increases in operating costs for all participants due to, inter-alia, cost inflation and increasing strip-ratios over time

⁷⁰ With the exception of JFY09 as the comparison was impacted by the GFC.

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- (c) the high upfront capital costs associated with bringing new supply into production and expanding required rail and port infrastructure, which will further increase the cost of bringing new supply to market
- (d) more conservative lending practices following the GFC, which has resulted in financing for large mining and related infrastructure projects becoming more difficult (and in some cases, the need for lending to be underpinned by bank guaranteed take-or-pay arrangements)
- (e) the higher marginal costs of new supply due to the above and other factors (e.g. the difficulty in locating near surface, high grade deposits in relatively stable geopolitical areas).

China's coal imports

- 10 China is the world's largest coal producer⁷¹ and was, for a long period, a net exporter of coal. However, in 2009 China increased coal imports by 84Mt (on 2008) to 126Mt and became a net importer of coal. Chinese imports accounted for nearly 15% of all globally traded coal in 2009 and largely insulated the global coal industry from the GFC. As a result China became the focal point of global coal demand. China has continued to import significant quantities of coal in 2010 (166Mt), with similar levels envisaged for 2011 (167Mt forecast)⁷². Given the size of this potential demand China's import behaviour in the coal market has significant implications for the price of coal.
- 11 A paper by Richard K. Morse and Gang He dated August 2010⁷³ concluded that unlike India, which is structurally short coal because demand growth, mainly for power, has outstripped domestic coal supplies, China is now "*the world's largest coal arbitrage trader*" that will "*import heavily when the price is right ... and largely rely on domestic coal when imports are unattractive.*" As a result the global market price of coal is likely to be implicitly linked to China's domestic price and the related cost of coal production at, and transport costs from, Chinese mines⁷⁴.

Forward coal prices

- 12 As most coal is sold under long-term contracts, with prices agreed either annually (thermal coal) or quarterly / monthly (metallurgical coal), the level of coal traded on futures markets is relatively low. However, futures markets provide unbiased actual market prices at which coal can be sold for delivery at a future date and therefore have been reviewed by us when considering the outlook for future coal prices.

⁷¹ China produced some 3.24 billion tonnes of coal in 2010.

⁷² Source: ABARE.

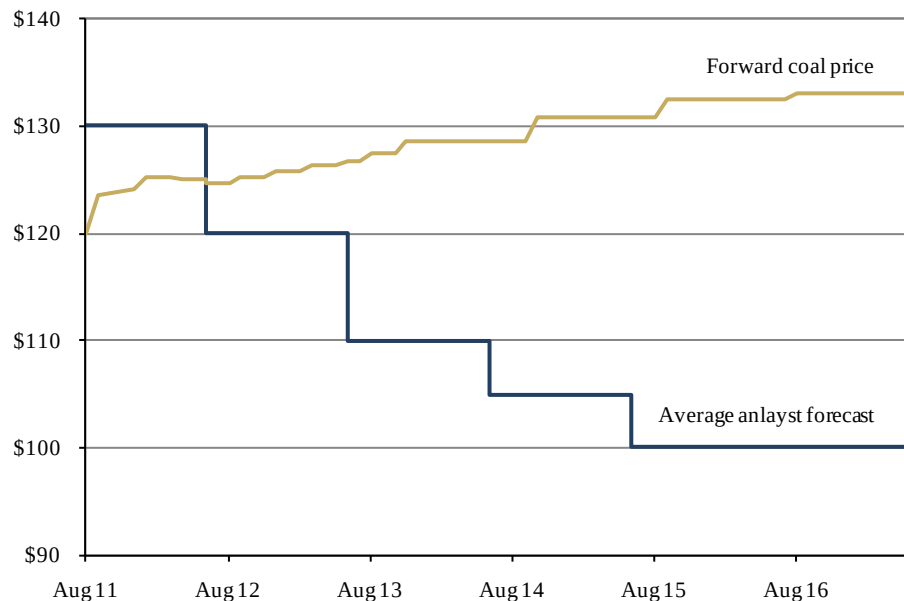
⁷³ Titled "*The World's Greatest Coal Arbitrage: China's Coal Import Behaviour and Implications for the Global Coal Market*".

⁷⁴ Accurate information on the cost of coal production for Chinese mines is difficult to ascertain.

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- 13 Accordingly, we set out below a graph of the spot and forward prices as at 20 September 2011 for the Newcastle 6,700Kcal GAD⁷⁵ FOB thermal coal (referred to as the “Newc Index” price) and average analyst price forecasts for thermal coal.

Newc Index vs average analyst forecasts (US\$/tonne)



Source: Bloomberg.

- 14 As indicated above, the future Newc Index prices generally exceed average analyst price forecasts. Futures prices therefore further support our view that analysts generally underestimate coal prices in the medium to long-term.

Correlation of USD coal prices and the AUD:USD exchange rate

- 15 It is important to note the strong correlation between USD commodity prices and the AUD:USD exchange rate⁷⁶, with higher USD commodity prices generally coinciding with an increase in the AUD:USD exchange rate (and vice versa). For example, we set out below a graph of the movements in the Newc Index⁷⁷ (thermal coal) and the spot AUD:USD exchange rate since 1 January 2005:

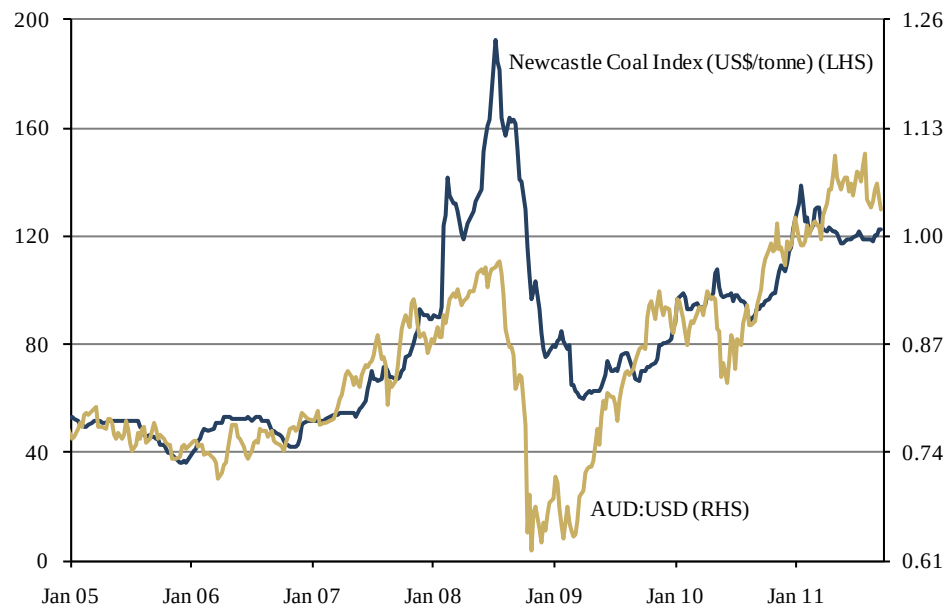
⁷⁵ GAD, which broadly reflects 6,000Kcal/kg net calorific value (NCV).

⁷⁶ This strong correlation was confirmed based on a recent study undertaken by Consensus Economics Inc.

⁷⁷ McCloskey Newcastle 6,700 KC GAD FOB Steam Coal Spot Price/Australia.

Appendix C

Newcastle Coal Index vs AUD:USD 1 January 2005 to 20 September 2011



Source: Bloomberg.

Long-term coal prices used by independent experts

- 16 We have also considered the reasonableness of our long-term coal price assumptions in AUD by comparing our commodity price assumptions with those adopted in other expert valuations prepared from 2009 to 2011 to date in connection with Australian coal company transactions. A summary of the range of USD and AUD equivalent long-term prices that have been adopted in these reports is shown below:

Long-term coal price assumptions from recent IERs (2009 – 2011)

	Number of reports	Coal price ⁽¹⁾ US\$	Coal price ⁽¹⁾ A\$
Thermal coal:			
Range	9	83.2 – 97.4	111.0 – 126.5
Mean	9	88.9	117.1
Median	9	87.0	116.0
Hard coking coal:			
Range	7	152.8 - 177.6	203.2 – 227.6
Mean	7	161.5	210.9
Median	7	158.4	209.3

Note:

- 1 Calculated in FY17 terms applying the inflation factor assumption contained in the IER. A consistent rate of 2.5% per annum has been applied.

Appendix C

Coal prices used for Coal & Allied valuation

- 17 Given the above we have adopted forecast prices which are toward the high end of analysts' price forecasts for semi-soft coking coal and thermal coal. We have also had regard to the historical relationship between semi-soft coking coal and thermal coal prices (particularly as fewer analysts provide semi-soft coal price forecasts).
- 18 Accordingly we have adopted the following Japanese benchmark coal prices for our valuation of Coal & Allied's mining operations:

Benchmark coal prices adopted for valuation purposes (FOB US\$/tonne in nominal terms)						
	Actual 3 mths to 31 Dec 11	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast ⁽²⁾ Long-term
Low case:						
Semi-soft coking coal	200 ⁽¹⁾	185	160	145	135	125
Thermal coal	130 ⁽¹⁾	125	120	110	105	100
High case:						
Semi-soft coking coal	200 ⁽¹⁾	200	173	157	146	135
Thermal coal	130 ⁽¹⁾	135	130	119	113	108
Semi-soft coking coal price premiums over thermal coal prices						
Low and high cases	54%	48%	33%	32%	29%	25%

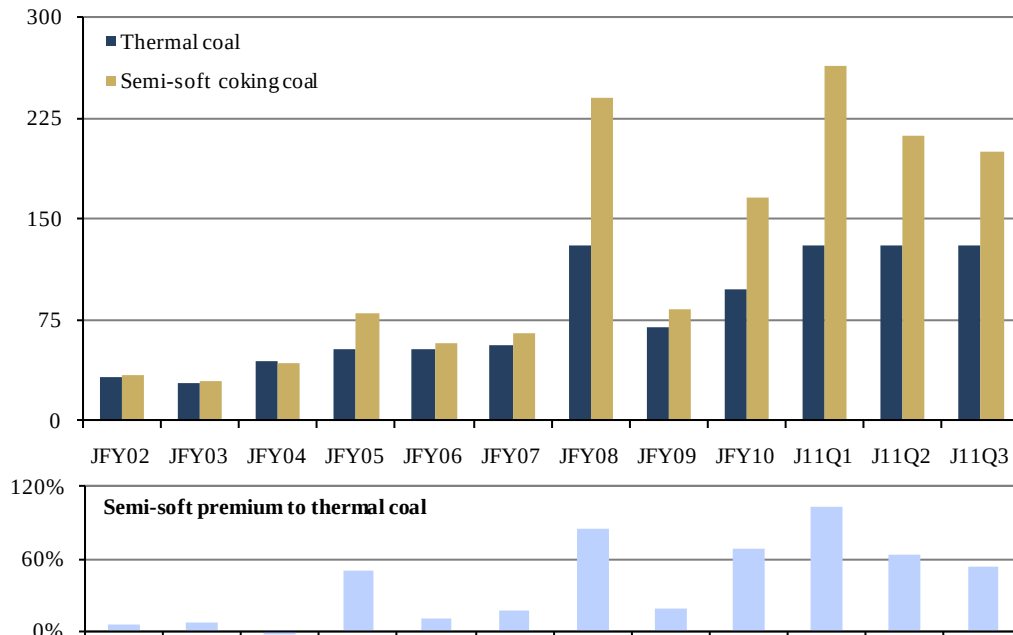
Note:

- 1 Thermal coal prices reflect actual contract prices and semi-soft coking coal prices reflects estimated actual prices.
- 2 The long-term price is expressed in 2016 dollar terms (and is assumed to be maintained in real terms).

- 19 As set out above, as a cross-check we have also considered the premium of semi-soft coal prices over thermal coal prices. A chart showing the relationship between semi-soft coking coal prices and thermal coal prices over the last 10 years is set out below:

Appendix C

Thermal coal and semi-soft coking coal prices (US\$/tonne)



- 20 The level of annual discount varies depending on, inter alia, the global demand and supply for coal and, in particular, the strength of demand for metallurgical coals generally. In addition, we note that:
- (a) over the last five and 10 years⁷⁸ the benchmark semi-soft coking coal price has represented an average premium to the benchmark thermal coal price of 53% and 33% respectively
 - (b) since quarterly pricing was introduced⁷⁹, i.e. in a period when demand for metallurgical coal has been strong, this premium has ranged from 46% to 103%, with an average premium of 71%. This is higher than the five and 10 year average discounts, as it includes a period of high relative demand for metallurgical coals combined with supply interruptions in Queensland (due to flooding), which is the largest supplier of globally traded metallurgical coals
 - (c) the premium for semi-soft coking coal prices over thermal coal prices was significantly lower in the years prior to 31 March 2005, which pre-dated the significant increase in global demand for all coal types
 - (d) since 1990 semi-soft coal prices have been on average 23% higher than thermal coal prices.

⁷⁸ Covering the Japanese financial years up to 31 March 2011.

⁷⁹ I.e. in the six quarters prices have been agreed, starting from 30 June 2010 to 31 December 2011.

Appendix C

- 21 In our view the semi-soft coal prices forecasts appear reasonable having regard to the historical premium over thermal coal prices and expectations of increased coal supply over the medium to long-term which will alleviate some of the current demand and supply imbalance.

Disclaimer

- 22 It should be noted that the coal price and foreign currency assumptions set out above do not represent forecasts by LEA but rather reflect a range of future prices and exchange rates which we consider appropriate for valuation purposes having regard to the interrelationship between commodity prices and the AUD:USD exchange rate analyst forecasts and other market indicia. Our estimates are based upon the varied (and in cases widely varied) forecasts of market analysts which can change significantly over short periods of time. Our estimates are also made around a time of significant levels of price volatility. It follows that the price estimates are subject to considerable uncertainty and that changes (including minor amendments) thereto will impact (and in certain cases could have a material impact) on our assessed value range.

Appendix D

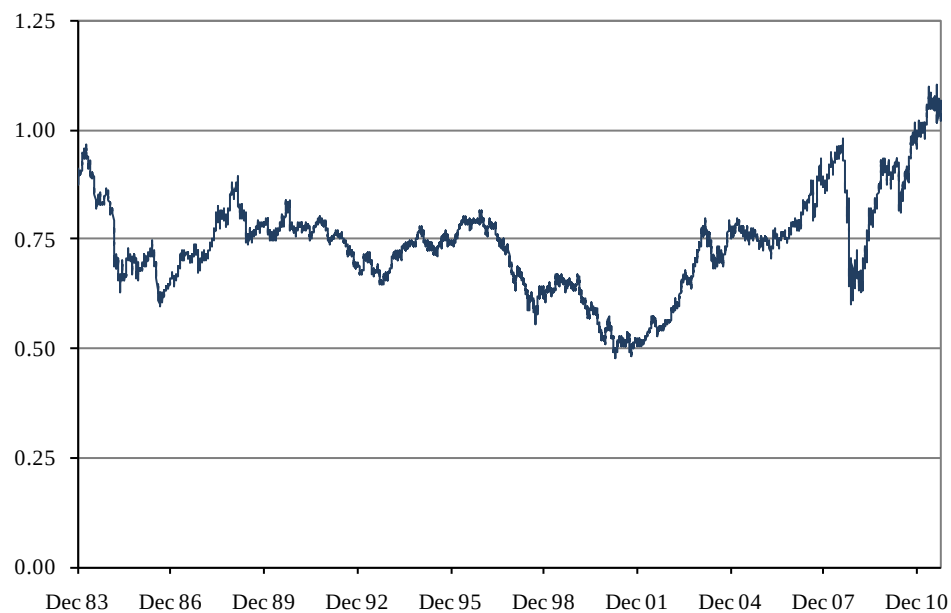
Future AUD:USD exchange rates

Historical AUD:USD exchange rates

- 1 The following chart shows the movement in the AUD:USD exchange rate since it was floated in December 1983. Notably, for the first time since the float the AUD has largely traded above parity throughout 2011 (to date):

AUD:USD historical exchange rates

12 December 1983 to 20 September 2011

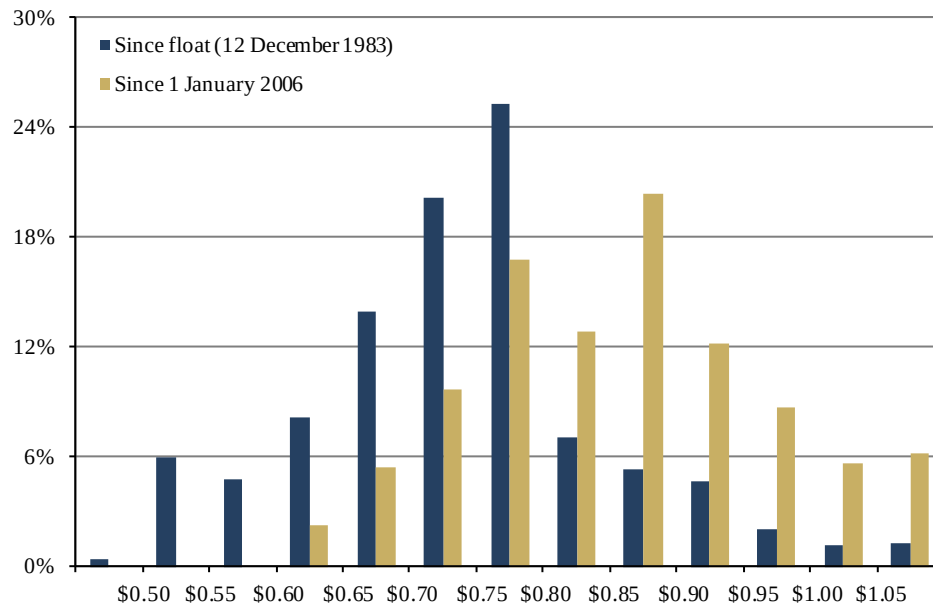


Source: Bloomberg.

- 2 The historical trading range of the AUD:USD since the float in 1983 contrasted against its recent trading history from 1 January 2006 (a period of generally sustained high global demand for commodities including coal and iron ore) is shown below:

Appendix D

Historical trading range of the AUD AUD:USD



Source: Bloomberg.

- 3 As illustrated above, over the past five years the AUD:USD exchange rate has predominantly traded between A\$0.75 and A\$0.95, and more recently, above parity. This contrasts with the trading range since the float in 1983, where the AUD:USD exchange rate has typically traded between A\$0.65 and A\$0.80. This increased trading range is largely attributable to the strong correlation between USD commodity prices and the AUD:USD exchange rate⁸⁰, with higher USD commodity prices generally coinciding with an increase in the AUD:USD exchange rate (and vice versa).
- 4 The current strength of the AUD:USD exchange rate can largely be attributed to:
 - (a) on-going concerns over the US Government's fiscal position
 - (b) low interest rates in the US as a result of weak US domestic demand; and
 - (c) high commodity prices generally which, as stated above, usually correlate with high AUD:USD exchange rates.

⁸⁰ This strong correlation was confirmed based on a recent study undertaken by Consensus Economics Inc.

Appendix D

Forecasts and futures markets

5 Notwithstanding more recent trading history, all analysts surveyed by Bloomberg are forecasting that the AUD:USD exchange rate will fall significantly over the medium and long-term. These AUD:USD exchange rate forecasts as at the date of this report were as follows:

AUD:USD analyst forecasts								
	Q4 11	Q1 12	Q2 12	Q3 12	2012	2013	2014	2015
Silicon Valley Bank	1.02	1.01	1.00	0.99	0.98	0.95	0.92	0.90
BNP Paribas	1.12	1.15	1.18	1.18	1.15	1.00	-	-
Nomura Bank International	1.08	1.06	1.06	1.05	1.05	1.00	-	-
Westpac Banking	1.01	0.99	0.97	0.99	1.00	-	-	-
JPMorgan Chase	1.05	1.06	1.08	1.10	1.09	1.04	1.00	-
Schneider Foreign Exchange	1.02	0.99	1.05	1.08	1.12	-	-	1.21
Commonwealth Bank of Australia	1.04	1.07	1.08	1.08	1.08	0.95	-	-
Rabobank	1.03	1.03	1.02	1.00	-	-	-	-
Wells Fargo	1.01	1.03	1.05	1.05	1.04	-	-	-
Morgan Stanley	0.99	0.95	0.97	1.01	1.04	1.08	-	-
Royal Bank of Scotland	1.06	1.07	1.08	1.10	1.10	-	-	-
Skandinaviska Enskilda Banken	1.08	1.10	1.10	1.00	1.10	-	-	-
BMO Capital Markets	1.01	1.00	1.02	-	1.05	0.95	-	-
Redtower	0.87	0.78	0.75	-	-	-	-	-
Bank of Tokyo-Mitsubishi	1.04	1.01	0.98	0.95	-	-	-	-
Development UFJ								
HSBC Holdings	0.95	0.95	0.90	-	-	-	-	-
Credit Suisse Group	1.11	1.11	1.12	-	1.12	1.02	0.96	0.91
Scotia Capital	1.09	1.09	1.10	1.10	1.11	-	-	-
Saxo Bank	0.96	0.91	0.88	-	0.85	-	-	-
Vadilal Enterprises	1.06	1.05	1.02	1.01	1.00	0.95	1.00	1.02
Canadian Imperial Bank of Comm.	0.97	0.98	1.01	-	1.00	-	-	-
Commerzbank	1.06	1.05	1.02	1.00	0.98	-	-	-
DZ Bank	1.08	1.06	1.05	1.04	-	-	-	-
National Bank Financial	0.99	1.02	1.04	1.05	1.06	-	-	-
Nordea Bank	1.00	0.95	-	-	0.90	0.90	-	-
UBS	1.00	1.00	-	-	0.95	-	-	-
UniCredit	1.03	1.05	1.08	1.08	1.10	-	-	-
Investec	1.05	1.10	1.10	-	1.05	0.90	-	-
Bank of America Merrill Lynch	1.02	0.98	0.96	-	0.93	-	-	-
Standard Chartered	1.13	1.09	1.06	1.05	1.05	-	-	-
ANZ Banking Group	1.12	1.12	1.12	-	1.14	-	-	-
Prestige Economics LLC	1.08	1.09	1.10	-	1.11	1.12	-	-
National Australia Bank	1.07	1.06	1.04	-	-	-	-	-
Barclays	1.13	1.15	1.15	-	1.12	1.05	1.01	0.96
Citigroup	1.01	1.02	1.04	1.04	1.01	-	-	-
Overseas-Chinese Banking Corp	1.06	1.09	1.12	-	1.05	-	-	-

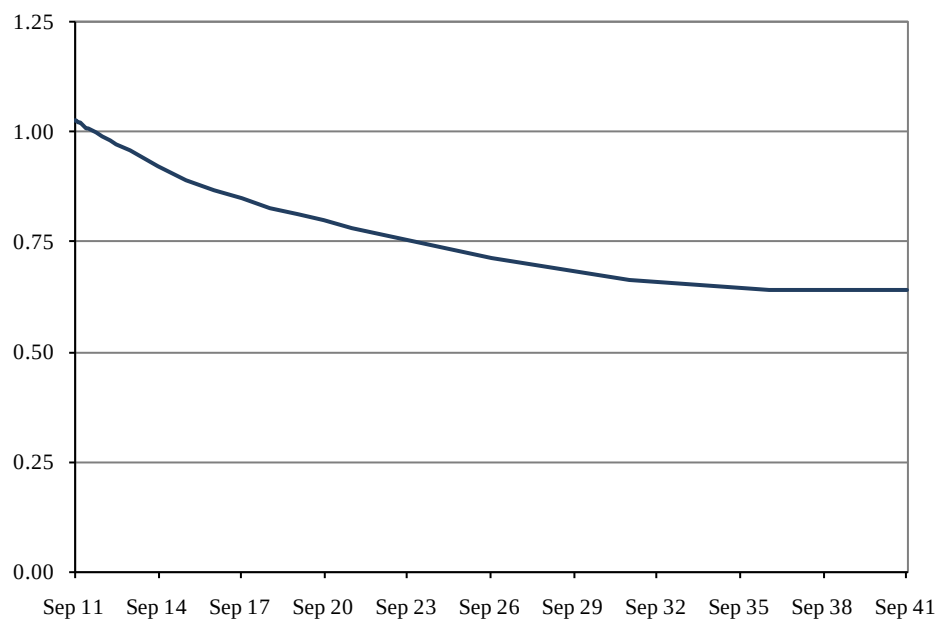
Appendix D

AUD:USD analyst forecasts								
	Q4 11	Q1 12	Q2 12	Q3 12	2012	2013	2014	2015
Median	1.04	1.05	1.05	1.05	1.05	1.00	1.00	0.96
Mean	1.04	1.03	1.04	1.05	1.04	0.99	0.98	1.00
Forward	1.06	1.05	1.04	1.03	1.01	0.97	0.94	0.91

Source: Bloomberg. Accessed 20 September 2011 noting that some of the above forecast estimates are prior to this period.

- 6 Forward exchange rates, which reflect the actual unbiased rates at which foreign currency transactions can be locked in, are also lower than current spot AUD:USD exchange rates, as shown below:

Forward exchange rates AUD:USD
As at 20 September 2011



Source: Bloomberg.

- 7 The significant decline in the forward AUD:USD exchange rate reflects the interest rate differentials between Australia and the United States. As Australia's interest rates are significantly higher than the interest rates in the United States the forward AUD:USD exchange rate declines, such that (in theory) the higher interest rate received in Australia is offset by an exchange rate loss upon conversion back to United States dollars. However, the higher interest rates in Australia also encourage the purchase of AUD, supporting a higher currency (at least until interest rates in the United States start increasing or the flow of money seeking higher returns in Australia unwinds).

Appendix D

- 8 Continued strength in commodity prices is also expected to support the AUD:USD exchange rate. However, as there is a strong correlation between USD commodity prices and the AUD:USD exchange rate, lower long-term USD denominated commodity prices (compared to current spot prices) are likely to result in a lower AUD:USD exchange rates in the longer term (compared to current AUD:USD spot exchange rates). Put simply, there are substantial offsets (both ways) between USD denominated coal prices and the prevailing AUD:USD exchange rate.

Future AUD:USD exchange rates

- 9 Our assessment of the AUD:USD exchange rates that we consider appropriate for the purpose of our valuation of Coal & Allied is based upon a blended analysis of forward market prices (lower due to interest rate differentials), forward market estimates (higher, due to the expected higher than analyst forecast commodity price forecasts) and long-term (after also considering recent short-term volatility) and historical foreign exchange rate trends. We have relied upon the actual AUD:USD forward rates for the purpose of determining the appropriate short-term AUD:USD exchange rates, as these reflect the actual unbiased rates at which currency transactions can be locked in today.
- 10 We have adopted a long-term exchange rate (i.e. for periods beyond FY16) of A\$1.00 = US\$0.82 to A\$1.00 = US\$0.86. In our opinion, these rates are appropriate long-term rates for valuation purposes.
- 11 Consistent with our selection of coal prices at the upper end of analysts' forecasts⁸¹ (and after also considering the expected higher volume of, in particular, Australia's coal and iron ore exports) the long-term AUD:USD foreign exchange rate adopted implies a more conservative view (i.e. a higher AUD:USD exchange rate) than that reflected in the forward foreign exchange market (which implies lower exchange rates after 2016).
- 12 The AUD:USD exchange rates adopted for valuation purposes are as follows:

AUD:USD exchange rate assumptions						
	3 mths to 31 Dec 11	2012	2013	2014	2015	Long-term
Low	1.00	0.96	0.92	0.88	0.85	0.82
High	1.04	1.00	0.96	0.92	0.89	0.86

- 13 We note that since the above analysis was undertaken (on 20 September 2011) global equity markets, commodity prices and the AUD:USD exchange rate have been very volatile. Due to, in particular, heightened concerns regarding the European sovereign debt crisis and its impact on funding costs and global economic growth (and the repatriation of investment funds back into USD as a result of this market uncertainty), the AUD:USD exchange rate fell below parity (but has since rebounded).

⁸¹ Refer below.

Appendix D

- 14 Accordingly, we have considered whether our AUD:USD exchange rate assumptions should be revised. In this regard we note that:
- (a) due to the strong correlation between USD denominated Australian export commodity (and coal) prices and AUD:USD exchange rates these variables should be assessed on a consistent basis
 - (b) while the price of coal is denominated in USD the relevant price for valuation purposes is the price received by Coal & Allied in AUD. Due to the strong correlation referred to in (a) the AUD price received for export coal is less volatile than the USD price⁸²
 - (c) the recent fall in the spot AUD:USD exchange rate has coincided with declines in short-term commodity prices. Accordingly, any adjustment to our short (and medium) term AUD:USD exchange rate assumptions would also result in an adjustment to short (and medium) term USD denominated coal prices, the net effect of which (in terms of the short and medium term AUD denominated coal prices) would not be material
 - (d) our opinion on long-term coal prices and the appropriate long-term AUD:USD exchange rate (being the key value drivers) are not materially impacted by short-term events.
- 15 In our opinion therefore, the recent volatility in USD commodity prices and AUD:USD exchange rates does not require any revision to our implied AUD denominated coal price assumptions.

⁸² For example, as commodity prices increase the AUD:USD exchange rate generally rises. As a result the AUD equivalent of export proceeds may not change materially.

Appendix E

Industry comments on long-term coal and commodity prices

Rio Tinto

“Our long-term view of demand growth is unchanged. As the metal-hungry developing economies grow, demand for copper, aluminium and iron ore will double over 15 to 20 years.”

“But challenges on the supply side are limiting the speed of new supply to market. Project finance is tight because of the current market jitters. Permitting delays, labour and equipment shortages, and technically-challenging ore bodies are all contributing factors.”

[Source: Rio Tinto Investor Seminar, 20 September 2011].

“Looking further to the future, our view remains that there will be a high average demand growth setting for our markets but also one that will be characterized by elevated volatility and scope for discontinuities. On the supply side, significant constraints to capacity expansion remain evident, and if anything, have become more problematic.”

“A multitude of supply constraints are impacting the ability of the mining industry to bring new capacity to market. Gone are the near-surface, high-grade deposits located in relatively stable geopolitical areas. Ore bodies are increasingly complex, lower grade and/or in challenging geopolitical and isolated locations. Permitting and approval requirements are increasing, slowing the speed with which projects can reach the production stage. Resource nationalism continues, increasing political risk and having a negative effect on new investment thus slowing the supply response further.”

“On this basis we expect that real long-run prices and margins for almost all minerals and metals will average significantly higher going forward than in the decade preceding the most recent six year boom but price volatility is also expected to be elevated – a pattern we have dubbed as the ‘saw tooth economy’.”

[Source: Outlook for Metals and Minerals, Half Year Results 2011, 4 August 2011 (Rio Tinto)].

BHP Billiton

“The strong pace of growth in demand for steelmaking raw materials, particularly in China, is expected to slow in the longer term, as underlying growth reverts to a more sustainable level and resource intensity per unit of GDP declines. However, the fundamentals for iron ore and metallurgical coal remain compelling as the supply response is expected to remain constrained and capital costs are expected to rise.

Over the longer term, we expect strong demand for our core commodities to be underpinned by the industrialisation and urbanisation of China, India and other emerging economies. Progressively higher cost sources of new supply will be required, supporting long run commodity prices and operating margins for the low cost producers.”

[Source: BHP Billiton Results for the Year Ended 30 June 2011].

Appendix E

Anglo American

“There are short-term risks. The US is struggling to overcome the after effects of the financial crisis, Europe is stumbling through its sovereign debt crisis and Japan is still coming to terms with the impact of its tragic earthquake and tsunami, as well as the nuclear power emergency.

But the medium to longer-term outlook for economic growth and commodity demand is very strong, in spite of the near term risks. We are still much closer to the beginning than the end of the developing world growth story.

For example, even after the last decade of pulsating growth, GDP per capita in China is just a fifth of that in the United States. On this measure, China is now where Japan was in 1950, just before its living standards really began to catch up with those in the US. And, on the same measure, India has even further to travel.”

“So the prospects for commodity demand remain very exciting. The critical question is how we will ensure that commodity supply is there to meet that demand.”

[Source: CEO speech to the Melbourne Mining Club in London, 30 June 2011].

“Anglo American believes that demand for commodities remains healthy, driven by the resources intensive growth in the emerging economies, particularly in China and India. However, the unfolding of sovereign debt crises in Europe and the United States, and policy tightening in the major emerging economies is expected to generate short-term volatility. In spite of that volatility, prices for commodities are expected to be robust as widespread supply constraints and the challenges producers face bringing new supply into production will lead to tighter market fundamentals.”

“Costs will continue to be impacted by strong producer currencies and increasing prices for key inputs.”

[Source: Anglo American Half Year Financial Report for six months ended 30 June 2011].

Xstrata Plc

“Record steel production in China is outpacing domestic coking coal supply capacity and Chinese coking coal imports are expected to support coking coal prices. The development of new supply will continue to lag demand in the medium to longer term.”

[Source: Xstrata Plc Half-Yearly Report 2011].

“China’s per capita energy consumption is expected to double by 2020.”

“A secular shift in demand for commodities is underway.”

[CEO speech, MCA Minerals Week, June 2011]

Appendix E

Peabody

“Over 2010 to 2015 the increase in seaborne thermal (coal) demand is expected to exceed the increase in Seaborne thermal (coal) supply by 50 to 75 million tonnes.”

“Over 2010 to 2015 the increase in seaborne Met (coal) demand is expected to exceed the increase in Seaborne Met (coal) supply by around 20 million tonnes.”

[Source: Presentation to 6th Annual Jefferies Global Industrial and A&D Conference, 10 August 2011]

Saul Eslake, Paper presented to the International Conference of Commercial Bank Economists

“...absent another shock to the global economy similar to that imparted by the global financial crisis of 2008-09, the ‘fundamental’ demand for a wide range of energy, industrial and food commodities is likely to continue to grow strongly over at least the next five years.”

“Demand for China, in particular, for a wide range of commodities is likely to remain buoyant for many years to come, even if slowing labour force growth and the need to contain inflationary pressures results in China’s overall growth rate slowing from an average of 10.8% pa over the past eight years to somewhere around 7-8% pa over the next five-ten years.”

“Even if India’s per capita GDP continues to grow at around 6.5% per annum (as it has done over the past decade) for another fifteen years, before slowing gradually, it will not exit the ‘zone’ of high commodity intensity until at least 2037.”

“China’s primary energy consumption has risen at an average annual rate of 9% since 2000, and now accounts for 20% of the world’s total energy consumption. Over 70% of China’s energy consumption is fuelled by coal, and China has switched from being a net exporter of coal to a net importer, because of the declining quality of its own coal supplies, the rising cost of transporting it, and increasing concern over the number of deaths and injuries incurred in extracting it. Although China is actively seeking to close down some of its most CO₂-intensive power stations, its thermal coal imports are expected to increase by some 13%, while its exports will continue to decline.”

“Coal also accounts for 52% of India’s primary energy consumption, which has grown at 5.3% average annual rate since 2000. India is undertaking a major expansion in its electricity generating capacity, with four major projects, each consuming 15mn tonnes of coal a year, expected to produce an additional 16,000MW by 2016. India’s thermal coal imports are expected to rise by almost two-thirds over the next five years, so that by 2016 India will be importing almost as much coal as China.”

“...a range of constraints on commodity supply, including changes in the cost structure and composition of the mining industry, the depletion of the more easily obtainable supplies of minerals and energy, declining productivity in agriculture, and (possibly) the impact of climate change, have meant that supply has been much slower to respond to this increase in demand than in previous cycles.”

Appendix E

“For ‘bulk commodities’ like coal, iron ore and natural gas, where investments in increased supply are often linked to increases in demand through ‘take or pay’ contracts, increases in supply are unlikely to outrun increases in demand, implying that prices should remain at elevated levels by historical standards for some years yet to come.”

“For many mineral commodities, and for some (but not oil) energy commodities, supply will eventually respond to the sustained increase in demand driven by the urbanization and industrialization of China, India and other ‘emerging and developing’ economies, thereby capping the rise in commodity prices over the past eight years or so and in some cases resulting in a decline from current levels, but to levels which in most cases remain high by historical standards.”

Appendix F

Assessment of appropriate discount rate

- 1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.
- 2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.
- 3 Businesses are normally funded by a mix of debt and equity. The weighted average cost of capital (WACC) is a widely used and accepted basis to calculate the “representative” rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.
- 4 Consequently, we set out below an explanation of:
 - (a) the WACC and its elements (including the CAPM, its application in determining the cost of equity, the cost of debt and the debt equity mix)
 - (b) our assessment of the appropriate parameters to be used in determining the discount rate to apply when valuing the coal mining operations of Coal & Allied.

Weighted average cost of capital

- 5 The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation⁸³ as shown below:

WACC formula

$$WACC = R_e \frac{E}{V} + R_d (1 - t) \frac{D}{V}$$

Where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_d	=	interest rate on debt (pre-tax)
t	=	corporate tax rate
E	=	market value of equity
D	=	market value of debt
V	=	market value of debt plus equity

⁸³ Given free capital flows between developed countries and the small size of the Australian stock market (as a percentage of global markets), the cost of capital of listed companies (other than perhaps regulated infrastructure assets) should be assessed in a global context ignoring Australian imputation. This is the approach generally adopted by independent experts.

Appendix F

CAPM and the cost of equity

- 6 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, investors are risk adverse and demand higher returns for accepting higher levels of risk.
- 7 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Cost of equity calculation

$$R_e = R_f + \beta_e [E(R_m) - R_f]$$

Where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

- 8 The individual components of the CAPM are discussed below.

Risk-free rate

- 9 The risk-free rate is normally approximated by reference to a long-term government bond with a maturity equivalent to the timeframe over which the returns from the assets are expected to be received. Typically in the Australian context, the yield on 10 year Commonwealth Government Bonds is used as a proxy for the risk-free rate. For the purpose of our report, we have adopted the prevailing yield on 10 year Commonwealth Government bonds. While the yield for 10 year government bonds in mid September 2011 was around 4.2%, for the purpose of this report we have adopted a rate of 5.0% per annum given that⁸⁴:
- (a) the 10 year government bond rate has been particularly sensitive to developments in the US and the US Government's fiscal position and has decreased as a result; and
 - (b) the average 10 year government bond rate was 5.2% and 4.7% for the year and three months to 20 September 2011 respectively.

Market risk premium

- 10 The market risk premium (MRP), $[E(R_m) - R_f]$, represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities, i.e. the equity market as a whole. Strictly speaking, the market risk premium is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the market risk premium is based on average realised (ex-post) returns.

⁸⁴ If we were to adopt a risk free rate of 4.2%, in our opinion it would be appropriate to adopt a correspondingly higher market risk premium.

Appendix F

- 11 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or market risk premium. Consequently the market risk premium is measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard of error of the mean where a shorter period is used. This supports more reliance being placed on the average market risk premium calculated over the longer term.
- 12 Australian and overseas empirical evidence shows (not surprisingly) that the historical market risk premiums vary across markets. Historical market risk premiums for the Australian market are generally in line with the overall range of the market risk premiums of developed countries, but appear to be higher than many countries as well as the world average.
- 13 In considering the MRP we have also had regard to market risk premiums adopted by various regulatory authorities in Australia, as well as other independent experts.
- 14 For the purpose of our report we have adopted a MRP of 6%. We note that this is consistent with:
 - (a) long-term empirical evidence both in Australia and overseas
 - (b) the MRP generally adopted by regulatory authorities in Australia⁸⁵
 - (c) other independent experts based on recent published reports⁸⁵.

Equity beta

Description

- 15 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than one suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than one suggests that future returns will be less volatile and risky.
- 16 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgment.

⁸⁵ We note that during and in the immediate period subsequent to the global financial crisis both regulatory authorities in Australia and independent experts (including LEA) generally adopted a MRP of 6.5%.

Appendix F

- 17 In determining the appropriate equity beta for Coal & Allied we have considered:
- (a) the risks faced by Australian coal mining companies generally
 - (b) the risks associated with the coal mining business of Coal & Allied and its Mount Pleasant development project
 - (c) the beta estimates for comparable coal mining companies and the relevant sector; and
 - (d) the beta estimate for Coal & Allied.

Risk of coal mining operations in Australia

- 18 In assessing the appropriate beta attributable to companies with coal mining operations in Australia the following risks and factors are relevant:
- (a) an overwhelming majority of coal produced in Australia is exported and some 80% of the industry revenue is generated from export sales. Accordingly the performance of the industry is subject to the volatility of the international demand for Australian coal (both coking and thermal)
 - (b) demand for metallurgical coal depends on the demand for steel production which is determined by global economic growth, particularly that of the major developing countries such as China and India. Thermal coal is mainly used for energy production, hence its demand is generally more resilient than demand for coking coal
 - (c) overall, the performance of the Australian coal industry generally depends on the growth of the global economy and is especially sensitive to the respective growth rates of the fast growing countries in Asia
 - (d) in recent years the historical volatility of coal prices has been very high, as evidenced by the unprecedented rise in coal prices prior to the onset of the GFC, the significant fall that followed as the repercussions of the crisis were felt and the subsequent reversal as prices have risen again associated with Asian coal demand at or above pre-GFC levels
 - (e) based on analyst forecasts of future coal prices, the outlook for the coal industry is positive, although less volatile than in recent times
 - (f) the high quality of coal produced, the low cost nature of Australian production and the proximity to the growing Asian markets provide the Australian coal industry with valuable competitive advantages to support its growth
 - (g) the ability to meet global demand for coal and accordingly the performance of the Australian coal industry has however been constrained due to insufficient adequate rail and port infrastructure. There has been considerable effort by state governments and stakeholders to solve the infrastructure problems. Capacities of major coal terminals in NSW and Queensland continue to increase as a result of significant and on-going investment. However, uncertainty remains with respect to on-going infrastructure capacity, in particular, the timing of availability of planned additional infrastructure

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- (h) export coal prices are denominated in USD yet Australian miners incur AUD operating costs. Coal mining operations in Australia are therefore subject to the inherent risk of exchange rate fluctuations (although some companies have active hedging policies to mitigate this risk)
- (i) the Australian mining sector also suffers from the country's on-going skill shortage problems, which could hinder the rate of Australian economic growth
- (j) the Australian coal industry is under political pressure from both the Federal Government and the environmental movement due to concerns about its contribution to global warming, most recently evidenced by the proposed introduction of a carbon tax
- (k) in addition, Australian coal miners are subject to a number of risks associated with mining operations generally such as:
 - (i) increases in capital expenditure requirements and operating costs
 - (ii) customers and counter parties failing to meet their obligations under sales contracts and/or financial arrangements relating to hedging contracts
 - (iii) sale contracts not being renewed due to competitive tenders, decreases in demand or cheaper alternative sources of supply
 - (iv) poor weather conditions over a prolonged period adversely impacting mining and exploration operations
 - (v) unforeseen failures, breakdowns or repairs required to key mining equipment or mine structure resulting in significant delays (particularly applicable to underground mining operations)
 - (vi) unforeseen adverse geological and mining conditions
 - (vii) changes in government policy and regulation of the mining industry, including conditions imposed on the extension to, or the granting of, mine leases
 - (viii) changes in taxation laws including increases in imposts such as royalties, freight, charges or taxes affecting the level of mining or exploration activities (recent examples of which include the failed RSPT and the proposed MRRT).

- 19 In summary, considering the above factors, in our opinion, the level of systematic risk associated with coal mining operations in Australia is higher than the level of systematic risk of the market as a whole.

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Risk factors of Coal & Allied

- 20 In considering the risks associated with the coal operations of Coal & Allied it should be noted that:
- (a) all current operations are large open-cut mines with relatively low operating costs per tonne due to, inter-alia, the size of mines and close proximity to port and rail infrastructure
 - (b) Coal & Allied's existing operations at HVO, MTW and Bengalla have been successfully operated over many years and future production is supported by proven and probable reserves of coal
 - (c) Coal & Allied is one of Australia's largest producers and exporters of thermal coal, with semi-soft coking coal also produced at two of its mine operations (HVO and MTW). While coking coal prices tend to be more volatile than thermal coal prices due to their use in steel production, in the five years to 2010 approximately 82% of Coal & Allied's attributable production was thermal coal (the price and demand for which is underpinned by its use for power generation). As a result, in our opinion, the risk associated with Coal & Allied's operations is slightly lower than those companies predominantly producing coking coals
 - (d) similar to other coal miners in the HVCC, the company faces rail and port capacity issues. However, Coal & Allied has significant contractual arrangements regarding rail and port capacity for planned future production levels
 - (e) approximately 49% of Coal & Allied's sales in 2010 were made to Japan (46% in 2009) and accordingly Japanese customers represent the highest concentration of credit. Coal & Allied has policies in place to ensure that sales of products are made to customers with an appropriate credit quality. The company does not hold any collateral as security. Derivative counterparties and cash transactions are limited to high credit quality financial institutions
 - (f) while Coal & Allied has an active programme to manage its greenhouse gas emissions and associated climate change risks, the company's emissions per tonne of coal produced are above the threshold that would attract a carbon tax under the Federal Government's proposed carbon tax legislation.
- 21 Overall, in our view, the level of risk associated with the existing HVO, MTW and Bengalla mines is likely to be in line with the industry average (but slightly lower than those companies predominately producing coking coals).

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Specific risk of Mount Pleasant mine project

- 22 In our opinion, an additional risk premium should be reflected in the cost of equity when valuing the Mount Pleasant mine development. In this regard we note:
- (a) Mount Pleasant is a large coal development project with resources of just over 1 billion tonnes and reserves of 394Mt of coal
 - (b) the proposed development is based on an open cut mine, using a truck and shovel method, with plans for production up to 10.5Mtpa ROM coal. Synergies with the nearby Bengalla joint venture may also be available
 - (c) a full feasibility was completed in 2006⁸⁶, however, while the project was found to be economical, inadequate port and rail capacity in the HVCC resulted in delays to the project
 - (d) through 2008 and 2009 substantial progress was made on resolving infrastructure constraints with long-term rail and port infrastructure access at PWCS / NCIG being secured for the project. Take-or-pay contracts (rail and port) have been entered into with first deliveries expected in 2014
 - (e) the 2014 start date supported a decision to return the study back to prefeasibility, review potential options and then progress through feasibility and project execution prior to the commencement of operations.
- 23 Having regard to the above, we have allowed for these factors and risks by adding a 2.0% risk premium to the cost of equity assessed for Coal & Allied's existing mine operations.

Betas of comparable companies

- 24 In order to assess the appropriate equity beta for Coal & Allied, we have also had regard to the equity betas of coal mining companies listed on the ASX, as well as certain international companies (primarily export focused coal companies), as shown below:

Listed coal mining companies betas						
Company name	Market cap A\$b ⁽¹⁾	Gearing % ⁽²⁾	SIRCA beta ⁽³⁾	SIRCA beta's R-square ⁽⁴⁾	Bloomberg beta ⁽⁵⁾	Bloomberg beta's R-square ⁽⁴⁾
Coal & Allied	10.6	(1)	0.6	0.11	0.6	0.08
Australian coal producing companies⁽⁶⁾						
New Hope Coal Ltd	4.3	nm	1.3	0.41	1.4	0.32
Macarthur Coal Ltd	3.3	(11)	2.6	0.52	2.4	0.40
Whitehaven Coal Ltd	2.8	(6)	2.1	0.30	2.0	0.21
Aquila Resources Ltd	2.2	(9)	3.0	0.42	2.5	0.32
Gloucester Coal Ltd	1.5	10	1.5	0.17	1.1	0.10

⁸⁶ Exploration, mining studies and an EIS were completed in 1997 with development consent granted in 1999, however given the time lapsed more contemporary studies such as the 2006 full feasibility study have been undertaken.

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Listed coal mining companies betas						
Company name	Market cap A\$b ⁽¹⁾	Gearing % ⁽²⁾	SIRCA beta ⁽³⁾	SIRCA beta's R-square ⁽⁴⁾	Bloomberg beta ⁽⁵⁾	Bloomberg beta's R-square ⁽⁴⁾
US coal producing companies						
Peabody Energy Corp.	10.3	17	na	na	1.3	0.32
Consol Energy	8.1	35	na	na	1.4	0.28
Alpha Natural Resources Inc.	4.6	40	na	na	1.6	0.22
Arch Coal Inc.	3.3	57	na	na	1.7	0.35
Alliances Resource Partners	2.6	7	na	na	0.8	0.19
Patriot Coal Corp.	0.9	26	na	na	2.8	0.36
Other international coal companies with export operations						
Yanzhou Coal Mining Co	22.2	(9)	na	na	1.7	0.60
Bumi Resources	8.1	3	na	na	1.8	0.37
Bayan Resources Tbk PT	7.7	9	na	na	1.2	0.38
Exxaro Resources	6.2	22	na	na	1.1	0.34
Adaro Energy	5.4	44	na	na	1.9	0.41

Note:

- 1 Market capitalisation as at 20 September 2011.
 - 2 Gearing calculated as net debt divided by EV. A negative gearing ratio indicates that the company had net cash as at the most recent reporting date.
 - 3 SIRCA betas are estimated as at 30 June 2011 using four years of monthly data (the latest available).
 - 4 R-square is a statistical measure of how well the regression line approximates the real data points. It has a value between zero and 1. The closer R-square is to 1 the more reliable the beta estimate.
 - 5 Betas obtained from Bloomberg using four years of monthly data as at 20 September 2011.
 - 6 We have also had regard to Aston Resources Ltd, another large ASX listed coal company not shown above. However, given it was listed in August 2010 a reliable beta cannot be determined.
- na – not available. nm – not meaningful.

- 25 The above comparable betas vary widely which reflects differences in size, leverage, stage of development, mining portfolios and operational risks. None of the other listed companies are directly comparable to Coal & Allied. However, we note that the betas of these companies are generally well above the average market beta of 1, indicating a higher level of systematic risk for coal mining operations generally.
- 26 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long run. In addition, gearing ratios typically change over time. Further, the practice of adjusting equity betas for the difference in financial leverage also gives a misleading impression that the process provides precise comparable beta estimates.

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- 27 Nevertheless, we have considered the following in determining the appropriate equity beta for Coal & Allied:
- (a) the difference in gearing levels of comparable companies where these levels differ significantly
 - (b) the current gearing level of Coal & Allied and the long-term gearing level that we consider appropriate.

Historical betas of Coal & Allied relative to sector beta

- 28 The table below shows the historical beta estimates of Coal & Allied and the metals and mining sector:

Data period ended ⁽¹⁾	Coal & Allied		Metals & mining sector	
	Beta	R-square	Beta	R-square
June 2011	0.59	0.11	1.26	0.66
June 2010	0.49	0.08	1.23	0.63
June 2009	0.47	0.06	1.37	0.66
June 2008	0.24	0.01	1.21	0.52
June 2007	(0.15)	-	1.85	0.61
June 2006	0.30	0.01	1.22	0.46
June 2005	0.60	0.07	1.02	0.43

Note:

1 Using four years of monthly returns.

Source: SIRCA.

- 29 The R squared value for Coal & Allied increased post the sell down of Sojitz's 5.7% interest in August 2009, as liquidity for Coal & Allied shares increased. However, the R-squared estimate for Coal & Allied's betas remains very low, indicating that they are unreliable. Further, the betas of the individual coal stocks are significantly less reliable than the beta of the metals and mining sector (as evidenced by the low R-squared values). We note that the metals and mining sector composition is heavily influenced by BHP Billiton Ltd and to a lesser extent Rio Tinto, which are both diversified low cost producers with long life production assets. Much of BHP Billiton Ltd and Rio Tinto's production is iron ore and coal, which share many of the characteristics to the existing coal mining operations of Coal & Allied (which has long life open cut, low cost mining operations). The sector beta also reflects (albeit to a lesser extent) companies involved in underground and more metallurgically complex mining operations, as well as mines in development. These factors increase the risk of mining operations relative to open cut coal mining operations.

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Conclusion

- 30 Having regard to the above, and in particular the reliability of beta estimates, the impact of recent abnormal market conditions on beta estimates, the long-term beta estimates of the relevant sector in which the companies operate and the relative volatility of coal prices, we have adopted an equity beta of 1.25 for Coal & Allied's existing mining operations⁸⁷.

Gearing

- 31 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the "optimum" level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:
- (a) the variability in earnings stream
 - (b) working capital requirements
 - (c) the level of investment in tangible assets
 - (d) the nature and risk profile of the tangible assets.
- 32 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then the equity beta must be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of comparable listed companies over the period over which the beta estimates were calculated.
- 33 Consistent with the practice of other Australian companies in the sector, Coal & Allied has held little or negligible amounts of debt over the last four years:

Coal & Allied – net debt				
As at	30 Jun 08	30 Jun 09	30 Jun 10	30 Jun 11
NIBD/(cash) ⁽¹⁾ (A\$m)	319.4	357.7	360.2	126.6
Market capitalisation (A\$m)	9,351.2	7,273.1	8,052.4	9,134.7
NIBD/(NIBD + Market cap) (%)	3.7	(4.1)	(4.2)	(1.5)

Note:

- 1 NIBD – net interest bearing debt. Including financial derivatives.
- 2 Negative amounts indicate net cash held.

⁸⁷ We note that this is consistent with equity betas adopted by other independent experts in respect of recent valuations of coal mining companies with established operations similar to those of Coal & Allied.

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- 34 In recent years Australian coal mining companies have generally taken advantage of buoyant commodity market conditions to reduce debt⁸⁸. However, as companies expand their mining activities in response to continued market demand for coal, we consider it likely that debt levels will increase again to more historic levels⁸⁹. For the purpose of our report we have therefore placed greater reliance on medium / longer term data with respect to the funding mix of mine operations. Consistent with this we understand that future capital expenditure for the expansion of Coal & Allied's existing operations as well as the Mount Pleasant coal development project are likely to be funded using some debt.
- 35 Accordingly we have adopted a gearing ratio of 25% debt to 75% equity (at the lower end of the range of historical debt levels) for Coal & Allied, which we consider appropriate. This gearing ratio also recognises the debt servicing capacity of the company.

Cost of debt

- 36 As indicated above Coal & Allied is currently in a net cash position. While the company does have some borrowing facilities (which are largely undrawn) these are mainly provided by Rio Tinto and are denominated in USD (consistent with the denomination of coal sales). Due to the very low interest rates currently prevailing in the United States these loan facilities are also provided at very low interest rates. However, the interest rates are re-priced frequently, reflecting short-term movements in interest rates, and are therefore not indicative of the long-term cost of debt for Australian issuers. Accordingly, we have assessed the appropriate long-term cost of debt for valuation purposes by considering current borrowing margins above Australian government bond yields.
- 37 While Coal & Allied does not have a published credit rating on Bloomberg, we would expect Coal & Allied to have a similar credit rating to Rio Tinto⁹⁰. In part, this reflects the size and quality of Coal & Allied's existing operations which are long life, low operating cost mines (making them less susceptible to downturns in commodity markets). Based on data provided on the RBA website on borrowing margins we estimate that the long-term borrowing costs for issuers with "A" and "BBB" credit ratings in late August 2011 were around 6.8% and 7.5% per annum respectively. These rates reflect the net effect of falling base rates and higher credit margins over the month due to, inter alia, concerns about the state of the global economy and sovereign credit risks.
- 38 Having regard to the above, and the gearing ratio adopted in our WACC calculation, we consider a cost of debt of 7.0% per annum is appropriate for Coal & Allied.

⁸⁸ In comparison, US coal companies hold significantly more debt.

⁸⁹ Historical debt levels of Australian mining companies have generally averaged between 20% to 50% of total capital employed.

⁹⁰ According to Rio Tinto's 2010 Annual Report Rio Tinto has a "A" credit rating from Moody's.

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Calculation of nominal WACC

- 39 Based on the above we have adopted a discount rate of 10.6% per annum (after tax) for the existing coal mining operations of Coal & Allied (HVO, MTW and Bengalla), as determined below. When valuing the Mount Pleasant coal project we have applied an additional risk premium of 2.0% per annum to the assessed cost of equity of Coal & Allied for the reasons set out in paragraphs 22 to 23 of this Appendix.

WACC – nominal		
Parameters	Coal & Allied	Mount Pleasant
Beta	1.25	1.25
MRP	6.0%	6.0%
Risk free rate	5.0%	5.0%
Cost of equity	12.5%	12.5%
Additional risk premium	-	2.0%
Adjusted cost of equity	12.5%	14.5%
Cost of pre tax debt (%)	7.0%	7.0%
Tax rate (29% assumed from 2014 and beyond)	29.0%	29.0%
Cost of post tax debt	5.0%	5.0%
Gearing	25.0%	25.0%
After tax nominal WACC	10.6%	12.1%

Appendix G

Listed company multiples

- 1 The share market trading EBITDA multiples, as well as the enterprise value per tonne of reserves and resources for the major Australian listed coal companies are set out below:

Major Australian listed coal companies							
	EV ⁽¹⁾	EBITDA multiple ⁽²⁾			Enterprise value /		
	A\$m	FY11	FY12 ⁽³⁾	FY13 ⁽³⁾	Reserve ⁽⁴⁾	M&I ⁽⁴⁾	Resource ⁽⁴⁾
		x	x	x	A\$/t	A\$/t	A\$/t
Macarthur Coal Ltd ⁽⁵⁾	3,017.5	14.0	7.0	6.0	18.02	3.25	1.71
Whitehaven Coal Ltd	2,683.0	18.2	8.4	5.8	6.70	3.37	1.80
New Hope Corp Ltd	2,470.7	10.0	9.3	7.0	3.80	1.64	1.22
Aston Resources Ltd	2,010.2	nm	nm	nm	6.64	5.39	3.88
Aquila Resources Ltd	1,985.2	nm	nm	23.0	7.62	2.72	2.01
Gloucester Coal Ltd	1,627.1	16.4	8.0	5.7	5.91	1.60	1.08

Note:

- EV is enterprise value which is market capitalisation plus net debt and minority interests as at 20 September 2011.
- The companies have a 30 June year end with the exception of New Hope Corporation (31 July) and Coal & Allied (31 December).
- Forecast earnings are based on broker average forecasts (excluding outliers and outdated forecasts).
- JORC reserves and resources are calculated on an equity interest basis i.e. calculated based on the proportionate equity interest in the underlying mine. M&I denotes measured and indicated resources.
- Calculated as at 11 July 2011, being the trading day prior to the joint takeover offer by Peabody Energy Corporation and ArcelorMittal S.A.

nm – not meaningful.

Sources: Bloomberg, Reuters, company annual reports, company investor presentations, ASX announcements.

- 2 In considering the above data a number of factors must be taken into consideration, including:
- the type and quality of coal produced, for example some miners produce higher value metallurgical coals as opposed to thermal coals and others produce both
 - underground mining operations are more risky than open cut mining operations
 - the mix of operating and development assets
 - the coal prices (e.g. Bowen Basin or Hunter Valley prices) that the miners selling prices are referenced to
 - the impact of coal quality and its chemical characteristics.

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- 3 The following is a description of the major ASX listed coal companies which are currently in production, or expect to be so in the short-term.

Macarthur Coal Ltd		
2011 production (Mtpa)	2.8	Macarthur Coal is the world's largest producer of seaborne LV PCI used for steel making and a key supplier of LV PCI to the steel mills of Asia, Europe and Brazil and also produces some thermal and coking coal. The company currently holds a 73.3% interest in the Coppabella and Moorvale mines located in Queensland's Bowen Basin, with plans to increase production capacity through the development of its 50% interest in the Middlemount mine project. On 11 July 2011, Macarthur Coal received an initial takeover offer from Peabody Energy for A\$4.7 billion, which was increased to A\$4.8 billion on 5 September 2011.
Resources (Mt)	1,761.3	
Reserves (Mt)	167.5	
Coal type	LV PCI, Thermal	
Development stage	Producing	

Whitehaven Coal Ltd		
2011 production (Mtpa)	4.2	Whitehaven Coal operates four open cut mines and an underground mine (Narrabri) which are all located in the Gunnedah Basin of NSW. Saleable coal production from existing operations is expected to reach 10.5Mtpa by FY13, driven predominately by the expansion of the Narrabri mine. Whitehaven Coal is also developing the Vickery mine which is expected to produce in excess of 4Mtpa commencing in FY14. The company also has an 11% stake in the NCIG at the Port of Newcastle.
Resources (Mt)	1,493.3	
Reserves (Mt)	400.7	
Coal type	Semi-soft, PCI, Thermal	
Development stage	Producing & developing	

New Hope Corporation Ltd		
2011 production (Mtpa)	5.6	New Hope Corporation operates three mines in south Queensland, of which New Acland is the largest with production of 4.5Mt in FY11 and capacity to ramp production up to 10Mtpa. The company also operates the ship loading facility, Queensland Bulk Handling, which has a capacity of 10Mtpa. In February 2011 New Hope Corporation acquired 80.8% of Northern Energy (a coal exploration and development company) and subsequently made an offer to acquire the remaining shares it did not own in August 2011.
Resources (Mt)	2,019.4	
Reserves (Mt)	650.5	
Coal type	Thermal	
Development stage	Producing & developing	

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Aston Resources Ltd		
2011 production (Mtpa)	-	Aston Resources is a coal development company currently progressing the construction of its 85% interest in the Maules Creek coal project in the Gunnedah Basin, NSW. The company has completed a 14,000 metre comprehensive drilling programme, the results of which reflected a production profile expected to produce 84% semi-soft metallurgical coal for more than 20 years. Major project designs are substantially complete and land purchases required for project approval have been secured. The company has secured port capacity at the Port of Newcastle for 1.7Mtpa from 2013 and 5Mtpa from 2015.
Resources (Mt)	517.7	
Reserves (Mt)	272.9	
Coal type	Semi-soft, Thermal	
Development stage	Developing	
Aquila Resources Ltd		
2011 production (Mtpa)	0.8	Aquila Resources owns a 50% interest in the Isaac Plains coal mine in the Bowen Basin, which has a capacity of 3.6Mtpa. The company also has interests in three coal development projects in the Bowen Basin, including the Eagle Downs underground mine (50%), the Washpool open cut mine (100%) and the Talwood underground mine (100%). In addition, Aquila Resources has controlling interests in iron ore development projects in the West Pilbara region and in Thabazimbi, South Africa, as well as a controlling interest in a manganese development project in Avontuur, South Africa.
Resources (Mt)	987.0	
Reserves (Mt)	260.5	
Coal type	Hard coking, PCI, Thermal, (Iron ore)	
Development stage	Producing & developing	
Gloucester Coal Ltd		
2011 production (Mtpa)	1.8	Gloucester Coal operates two mining operations, Stratford and Duralie, in the Gloucester Basin 100km north of Newcastle. The company also recently acquired Donaldson Coal for some A\$585 million, with production expected to increase to 6Mt in FY12 (existing operations are expected to represent 3.3Mt of this). In late 2010 Gloucester Coal acquired a 50% interest in the Middlemount project (which is under development with Macarthur Coal) and in July 2011, the company acquired Monash Group (a Hunter Valley early stage development company) for A\$30 million.
Resources (Mt)	1512.1	
Reserves (Mt)	275.3	
Coal type	Semi-soft, Thermal	
Development stage	Producing & developing	

Appendix H

Coal transaction multiples

Summary of transaction multiples

Date ⁽¹⁾	Target	Acquirer	Lifecycle stage ⁽²⁾	Primary coal types ⁽³⁾	Purchase price A\$m	Interest acquired %	EV ^{(4),(5)} / Reserve A\$ per tonne	EV ^{(4),(5)} / M&I A\$ per tonne	EV ^{(4),(5)} / Resource A\$ per tonne
Sep 11	MetroCoal Ltd	DADI Engineering Development Group Co Ltd	Exploration	TC	22	15.0	na	6.50	0.13
Aug 11	Northern Energy Corporation Ltd	New Hope Corporation Ltd	Developing	HCC, PCI, TC	49	19.2	2.30	1.04	0.50
Aug 11	Syntech Holdings Pty Ltd	Yanzhou Coal Mining Co Ltd	Producing	TC	203	100.0	0.46	na	0.28
Jul 11	Macarthur Coal Ltd (Pending)	Peabody Energy Corp / ArcelorMittal S.A.	Producing	LV PCI	3,481	84.0	24.74	4.46	2.35
Jul 11	Woori Project (Cockatoo Coal Ltd)	Mitsui & Co Ltd	Exploration	TC	37	49.0	1.87	0.90	0.90
May 11	Lenton Project (New Hope Corporation)	Mai-Liao Power Corp	Exploration	CC, TC	58	10.0	11.16	2.95	2.06
May 11	Donaldson Coal Holdings Ltd	Gloucester Coal Ltd	Production ramp up	SSCC, TC	585	100.0	3.84	0.77	0.66
May 11	Ellemby Holdings Pty Ltd	Gloucester Coal Ltd	Exploration	SSCC, TC	30	100.0	na	2.31	0.10
May 11	Codrilla Project (Macarthur Coal / CITIC)	Coppabella and Moorvale Joint Venture	Development	LV PCI	75	13.8	10.88	9.81	6.85
Dec 10	Maules Creek (Aston Resources Ltd)	ITOUCHU Corporation	Development	SSCC, TC	345	15.0	6.46	5.23	3.77
Nov 10	Northern Energy Corporation Ltd	New Hope Corporation Ltd	Development	HCC, PCI, TC	134	80.8	1.48	0.67	0.32
Nov 10	Caledon Resources Plc	Guangdong Rising Assets Management	Development	CC, TC	509	100.0	10.68	1.47	0.30
Aug 10	MDL162	Macarthur Coal Ltd	Pre-development	SHCC, PCI	334	90.0	na	2.70	1.68
Aug 10	Middlemount Project	Gloucester Coal Ltd	Entering production	SHCC, LV PCI	453	50.0	15.89	7.50	7.39
Jul 10	5 of Anglo American's coal assets	POSCO, Korea Electric Power & Cockatoo Coal Ltd	Pre-development	CC, TC	580	100.0	na	1.75	0.68
Jul 10	Surat Basin Assets	Cockatoo Coal Ltd	Pre-development	TC	106	51.0	na	1.09	0.48
Jul 10	Sutton Forest	Cockatoo Coal Ltd	Pre-development	CC	22	30.0	na	0.62	0.62
Jul 10	Bylong & Ownaview	Korea Electric Power Corporation	Pre-development	TC	403	100.0	na	2.69	0.79
May 10	Centennial Coal Ltd	Banpu Public Company Ltd	Production	TC	2,832	100.0	8.77	1.55	1.29
Nov 09	Maules Creek Project	Aston Resources Pty Ltd	Development	SSCC, TC	480	100.0	na	1.75	1.21
Nov 09	Broughton Project	Resource Portfolio Partners	Pre-development	CC, PCI	12	90.0	na	0.48	0.40
Oct 09	Vickery Project	Whitehaven Coal	Exploration	SSCC, TC	312	100.0	na	na	0.11
Aug 09	Felix Resources Ltd	Yanzhou Coal Mining Company Ltd	Production ramp up	PCI, SSCC, TC	3,277	100.0	8.50	4.28	2.38
Aug 09	Narrabri Project (Whitehaven Coal Ltd)	Daweco International Corp & Korea Resources Corp	Entering production	PCI, TC	136	7.5	10.55	5.98	4.14
Feb 09	Gloucester Coal Ltd	Noble Group Ltd	Producing	SHCC, TC	462	87.7	13.86	5.17	2.52
Aug 08	Narrabri Project (Whitehaven Coal Ltd)	Electric Power Development Co. Ltd	Development	PCI, TC	125	7.5	16.23	5.50	3.80
Aug 08	Narrabri Project (Whitehaven Coal Ltd)	EDF Trading	Development	PCI, TC	176	7.5	22.91	7.74	5.62
Jul 08	New Saraji Project (New Hope Corp.)	BHP Billiton Mitsubishi Development Alliance	Development	HCC, PCI	2,450	100.0	na	15.71	3.55
Jul 08	Macarthur Coal Ltd	POSCO Company Ltd	Producing	LV PCI	426	10.0	48.78	6.86	3.37
Jun 08	Macarthur Coal Ltd	ArcelorMittal NV	Producing	LV PCI	212	5.0	48.78	6.86	3.37
May 08	Macarthur Coal Ltd	ArcelorMittal NV	Producing	LV PCI	631	14.9	48.78	6.86	3.37
May 08	Bandanna Coal Exploration properties	Enterprise Energy Ltd	Exploration	TC	129	100.0	7.31	7.31	0.20
Feb 08	Narrabri Project (Whitehaven Coal Ltd)	Guangdong Yudean Group Co. Ltd	Development	TC	68	7.5	8.76	2.97	2.05

Appendix H

Summary of transaction multiples

Date ⁽¹⁾	Target	Acquirer	Lifecycle stage ⁽²⁾	Primary coal types ⁽³⁾	Purchase price A\$m	Interest acquired %	EV ^{(4),(5)} / Reserve A\$ per tonne	EV ^{(4),(5)} / M&I A\$ per tonne	EV ^{(4),(5)} / Resource A\$ per tonne
Feb 08	Foxleigh mine	Anglo American Plc	Producing	PCI	722	70.0	17.18	na	3.55
Feb 08	Resource Pacific Holdings Ltd	Xstrata Plc	Production ramp up	SSCC, TC	996	100.0	8.62	na	3.95
Dec 07	Custom Mining Ltd (Middlemount Project)	Macarthur Coal Ltd	Development	SSCC, PCI, TC	275	70.0	na	5.74	3.92
Dec 07	Monto Coal Pty Ltd (Macarthur Coal) ⁽⁷⁾	Noble Group Ltd	Pre-development	TC	49	19.6	21.46	3.98	0.93
Nov 07	Werris Creek Mine	Whitehaven Coal Ltd	Producing	PCI, TC	74	60.0	6.17	10.32	3.23
Sep 07	Anvil Hill Project (Centennial Coal)	Xstrata Plc	Pre development	TC	425	100.0	2.75	na	0.81
Sep 07	Austral Coal Ltd	Xstrata Plc	Producing	CC	557	100.0	8.19	3.10	3.10
Jul 07	Cumnock Coal Ltd	Xstrata Plc	Producing	TC, CC	84	100.0	24.82	0.19	0.19 ⁽⁸⁾
Jul 07	Macarthur Coal Ltd	CITIC	Producing	LV PCI	105	8.4	12.42	2.16	1.10
Jul 07	Moolarben Project (Felix Resources Ltd)	Sojitz Corporation	Entering production	TC	90	10.0	na	2.27	1.46
Feb 07	AMCI Holdings Pty Ltd	CVRD (now Vale)	Production ramp up	LV PCI, TC	835	100.0	9.63	na	na
Nov 06	Yarrabee Mine (Felix Resources Ltd)	Coal Resources Corporation Ltd	Producing	TC, LV PCI	68	49.0	10.51	5.51	5.51
Jul 06	Minerva coal mine & Athena Project (Felix Resources Ltd)	Korean consortium	Production ramp up	TC	33	15.0	6.36	n/a	0.34
Jul 06	Excel Coal Ltd	Peabody Energy Corp	Production ramp up	HCC, SSCC, TC	2,325	100.0	6.53	2.00	1.80

Note:

- 1 Date of transaction based on the announcement date or rumoured date, whichever is earlier.
- 2 Definitions of different lifecycle stage terms are included below:
Producing – Currently producing at or near full production
Production ramp up – Currently producing, but is in ramp up phase
Entering production – Not producing but estimated to enter production within six months
Development – Exploration completed and building infrastructure to commence mining
Predevelopment – Exploration complete and in pre-feasibility or feasibility stage
Exploration – Exploration phase

- 3 Definitions of difference coal type terms are included below:

CC – Coking coal
HCC – Hard coking coal
LV PCI – Low volatile PCI coal
PCI – Pulverised coal injection coal
SHCC – Semi-hard coking coal
SSCC – Semi-soft coking coal
TC – Thermal coal

- 4 EV is calculated as purchase price divided by percentage interest acquired (i.e. it reflects the EV on a 100% interest basis).
- 5 It is important to note that data limitations make some of the calculation relativities unreliable (for example some projects may have already incurred significant capital expenditure and are thus more valuable relative to others).
- 6 Adjusts to assume that the loan for MDL 162 will be repaid and the assets will not be acquired.
- 7 Monto Coal Pty Ltd owned 50% of the Monto coal mine.
- 8 These multiples are low because of the lack of reserves at the time of purchase.

Source: LEA analysis using data from Bloomberg, ASX announcements and company websites. na – not available. n/a – not applicable.

Appendix I

Glossary

Term	Meaning
Agreement	Scheme Implementation Agreement
AMC	AMC Consultants Pty Ltd
ARTC	Australian Rail Track Organisation
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUD:USD	Australian dollar and United States dollar
BMA Alliance	BHP Billiton / Mitsubishi Development Alliance
CAPM	Capital asset pricing model
CCAF	Climate Change Action Fund
Coal & Allied	Coal & Allied Industries Limited
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CPRS	Carbon Pollution Reduction Scheme
DBCT	Dalrymple Bay Coal Terminal
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EIS	Environmental impact statement
EV	Enterprise value
FIRB	Foreign Investment Review Board
FOB	Free-on-board
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GAD	Gross air dried
GFC	Global financial crisis
HVCC	Hunter Valley Coal Chain
HVCCC	Hunter Valley Coal Chain Co-ordinator Limited
HVO	Hunter Valley Operations
Hunter Valley Resources	Hunter Valley Resources Pty Ltd
IEA	International Energy Agency
IER	Independent expert's report
JFY	Japan financial year
JORC	Joint Ore Reserves Committee
LEA	LonerGAN Edwards & Associates Limited
LOM	Life of mine
Mitsubishi Development	Mitsubishi Development Pty Ltd
MPCCC	Multi-Party Climate Change Committee
MRP	Market risk premium
MRRT	Mineral Resource Rent Tax
Mt	Million tonnes
Mtpa	Million tonnes per annum
MTW	Mount Thorley Warkworth
NCIG	Newcastle Coal Infrastructure Group
NCV	Net calorific value
Newc Index	Forward price of coal for Newcastle thermal coal with energy content of 6,700Kcal GAD
NIBD	Net interest bearing debt including financial derivatives

Appendix I

Term	Meaning
NPV	Net present value
NSW	New South Wales
OIA	Operational Integration Agreement
POSCO	POSCO Australia Pty Ltd
PTG	Policy Transition Group
PWCS	Port Waratah Coal Services
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
Rio Tinto	Rio Tinto Limited
ROM	Run of mine
RSPT	Resource Super Profits Tax
RTCA	Rio Tinto Coal Australia Pty Limited
Scheme	Scheme of Arrangement
Scheme Consideration	A\$125.00 cash per share less any Special Dividend)
SIRCA	SIRCA Risk Management Service
Sojitz	Sojitz Corporation
Special Dividend	A fully franked dividend of up to A\$8.00 cash per share
UK	United Kingdom
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding

Appendix J

AMC report

For personal use only

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19 October 2011

The Directors

Lonergan Edwards & Associates Limited

Level 27, 363 George Street

SYDNEY NSW 2000

Dear Sirs

ACQUISITION OF COAL & ALLIED INDUSTRIES LIMITED BY RIO TINTO AND MITSUBISHI DEVELOPMENT

TECHNICAL SPECIALIST'S REPORT

This technical specialist's report was prepared by AMC Consultants Pty Ltd (AMC) for Lonergan Edwards & Associates Limited (LEA) on the coal assets of Coal & Allied Industries Limited (C&A). These assets are the subject of a scheme of arrangement by Rio Tinto Limited (Rio Tinto) and Mitsubishi Development Pty Ltd (Mitsubishi) announced on 26 August 2011.

AMC's report covers the following mines, projects and exploration interests:

- Mount Thorley Warkworth (MTW).
- Hunter Valley Operations (HVO).
- Bengalla Mine (BEN).
- Mount Pleasant Development Project (MTP).
- Port and Rail Logistics (including Port Waratah Coal Terminal).
- Oaklands deposit exploration asset.

AMC has prepared schedules of prospective production and capital and operating costs as valuation inputs for use by LEA (modelling scenarios). A summary of the production schedule provided to LEA is included in this report.

AMC's modelling scenarios have been developed from detailed information provided by C&A. AMC believes the modelling scenarios are based on reasonable grounds in accordance with Australian Securities and Investment Commission (ASIC), Regulatory Guide 170 (RG170).

The cost forecasts included in the modelling scenarios provided to LEA have been prepared in real terms. AMC has not made any assumptions in regard to forward inflationary factors.

The modelling scenarios are based on coal reserve and coal resource estimates reported at 31 December 2010 with consideration for mining depletion to July 2011. Production and costs are presented on a calendar year (January to December) basis.

Excluded from AMC's scope are consideration of coal prices, exchange rates, financing and taxation issues. AMC understands that these matters have been addressed by LEA in its Independent Expert's Report.

AMC has received advice from a tenement specialist regarding the status of tenements underlying the coal assets involved in the transaction; and this advice confirms that the tenements are in good standing in all material aspects.

In preparing this report, AMC has relied on information provided by C&A and has no reason to believe the information is materially misleading or incomplete, or contains any material errors. C&A has been provided with drafts of the Report to enable correction of any factual errors and notation of any material omissions. The views, statements, opinions and conclusions expressed by AMC are based on the assumption that all information provided to it by C&A is complete, factual and correct to the best of C&A's knowledge.

AMC has not audited the information provided to it, but has aimed to satisfy itself that all of the information has been prepared in accordance with proper industry standards and is based on data that AMC considers to be of acceptable quality and reliability. Where AMC has not been satisfied, it has included comment in the Report and where necessary adjusted the estimates and forecasts provided by AMC to LEA.

This report presents AMC's assessment of the quality and reasonableness of the coal resource and coal reserve estimates prepared by C&A.

The coal resource and coal reserve estimates presented as tables in the report are a reproduction of those reported by C&A in its Australian Securities Exchange (ASX) Releases, except that AMC has reformatted the tables for consistency with the style of the report, and applied rounding adjustments and totals to some of the tables where it considers this necessary for clarity. In all cases, the coal resources shown in the tables exclude coal resources that have been converted to coal reserves at the reporting date (31 December 2010).

C&A's mining operations are managed by Rio Tinto Coal Australia Pty Ltd (RTCA). Reporting of coal resources and coal reserves is in accordance with guidelines which have been established by RTCA, and which incorporate the codes of practice as listed below.

- Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves - The JORC¹ Code (2004 Edition).
- Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves (2003 Edition)².
- Rio Tinto Standards - R1 (Mineral Resources), R2 (Ore Reserves), R3 (Reconciliation) and R4 (Competent Persons) (2009).
- Rio Tinto Coal Australia - Coal Resources and Coal Reserves Guidelines (2009).
- Rio Tinto Energy - Mine Planning Guidelines, Open Cut Coal (2004).
- Rio Tinto - Classification of Inventory Coal and Coal Resources into Geological Confidence Categories (May 2007).

For its operating mines, RTCA defines the limits of resources on the basis of margin ranking analyses. Risk assessments for resource and reserve estimations are also carried out. The net result is a rigorous categorisation of coal resources and coal reserves.

AMC has not performed, nor does it accept, the responsibilities of a Competent Person as defined by the JORC Code in respect to the coal resource and coal reserve estimates presented in the report.

AMC's projections and assessments have taken into account confidential information which, in accordance with ASIC policy and the VALMIN³ Code, has not been detailed in this report. Consequently, the forecast production from individual operations is compiled and shown in Section 1 of the report as combined values.

AMC has given its consent for this report to be appended to LEA's Expert Report and to be included in a Scheme of Arrangement for C&A, and has not withdrawn that consent before their lodgement with the Australian Securities and Investments Commission. Neither this report nor any part of it may be used for any other purpose without written consent from AMC.

This report and the conclusions in it are effective at 30 September 2011. Those conclusions may change in the future with changes in relevant commodity prices, exploration and other technical developments in regard to the projects and the market for mineral properties.

¹ Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).

² Australian coal guidelines, 2003, Australian guidelines for estimating and reporting of inventory coal, coal resources and coal reserves, prepared by the Coalfields Geology Council of New South Wales and the Queensland Mining Council, 2003 edition.

³ Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, The VALMIN Code 2005 Edition, Prepared by The VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

Production and costs are generally presented on a calendar year (January to December) basis. Totals shown in tables do not necessarily equal the sum of the components due to rounding adjustments.

Independence

AMC and its sub-consultants have carried out technical consulting assignments for C&A. In these assignments, AMC and its sub-consultants have acted as independent parties.

Neither AMC nor its sub-consultants have any business relationship with LEA or C&A other than the carrying out of individual consulting assignments as engaged.

While some employees of AMC and its sub-consultants may have small direct or beneficial shareholdings in C&A or Rio Tinto, neither AMC nor the contributors to this report nor members of their immediate families have any interests in C&A or Rio Tinto that could be reasonably construed to affect their independence. AMC has no other pecuniary interest, association or employment relationship with C&A, Rio Tinto or LEA.

AMC is being paid a fee according to its normal per diem rates and out-of-pocket expenses in the preparation of this report. AMC's fee is not contingent upon the outcome of the transaction subject to this report.

Compliance

AMC is of the opinion that this report complies with all mandatory requirements of the VALMIN Code. It is the only report issued by AMC in respect of the assignment.

C&A has provided AMC with confirmation of its compliance with the obligations of the Commissioning Entity under the VALMIN Code including that to the best of their knowledge complete, accurate and true disclosure of all relevant material information has been made to AMC and that AMC's independence has been respected.

C&A has provided AMC with indemnities in regard to damages, losses and liabilities related to or arising out of our reliance on information provided by the commissioning entity or from extensions of workload arising as a result of this report.

The signatories to this report are corporate members of the AusIMM and bound by its Code of Ethics.

Yours sincerely



P Smith
MAusIMM (CP)
Principal Mining Engineer



M Thomas
MAusIMM (CP)
Director

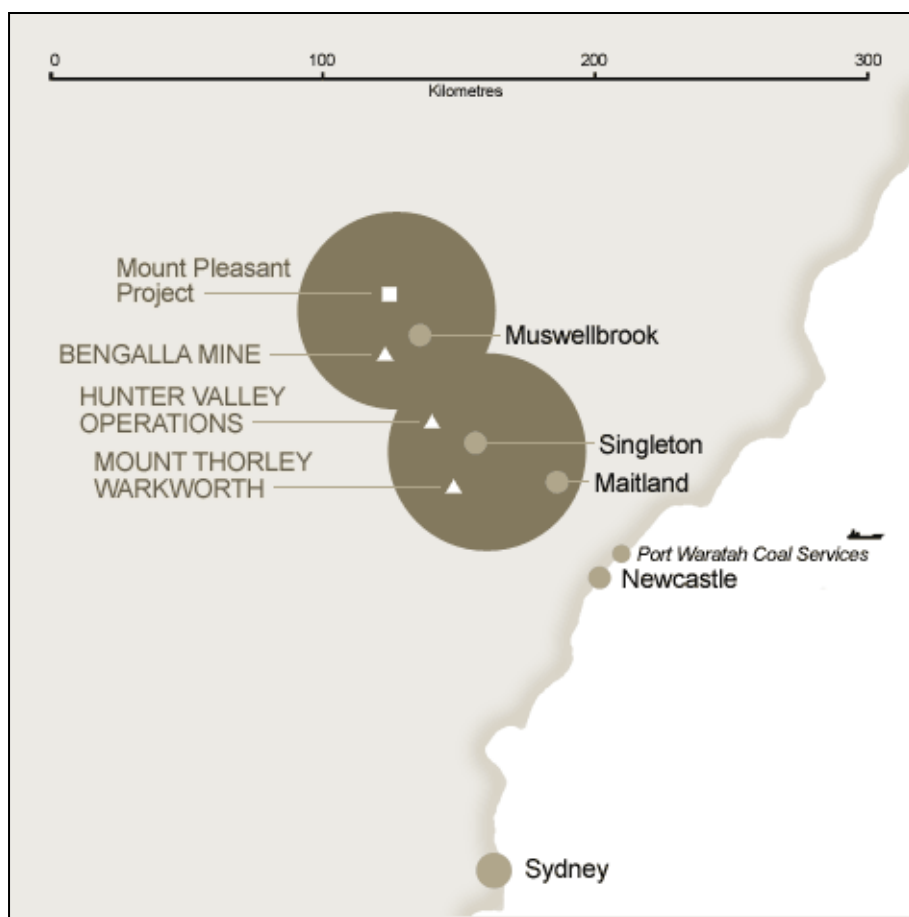
1 COAL AND ALLIED OPERATIONS

Coal & Allied Industries Limited (C&A) operations comprise three mines, one development project, one significant exploration project plus an interest in port facilities at Port Waratah. Production plans for the three operating mines and development project are combined and reported in this section of the report.

1.1 Mining

The locations of C&A's three mines Mount Thorley Warkworth (MTW), Hunter Valley Operations (HVO), Bengalla Mine (BEN) and the Mount Pleasant Development Project (MTP) in the Hunter Valley are shown in Figure 1.1.

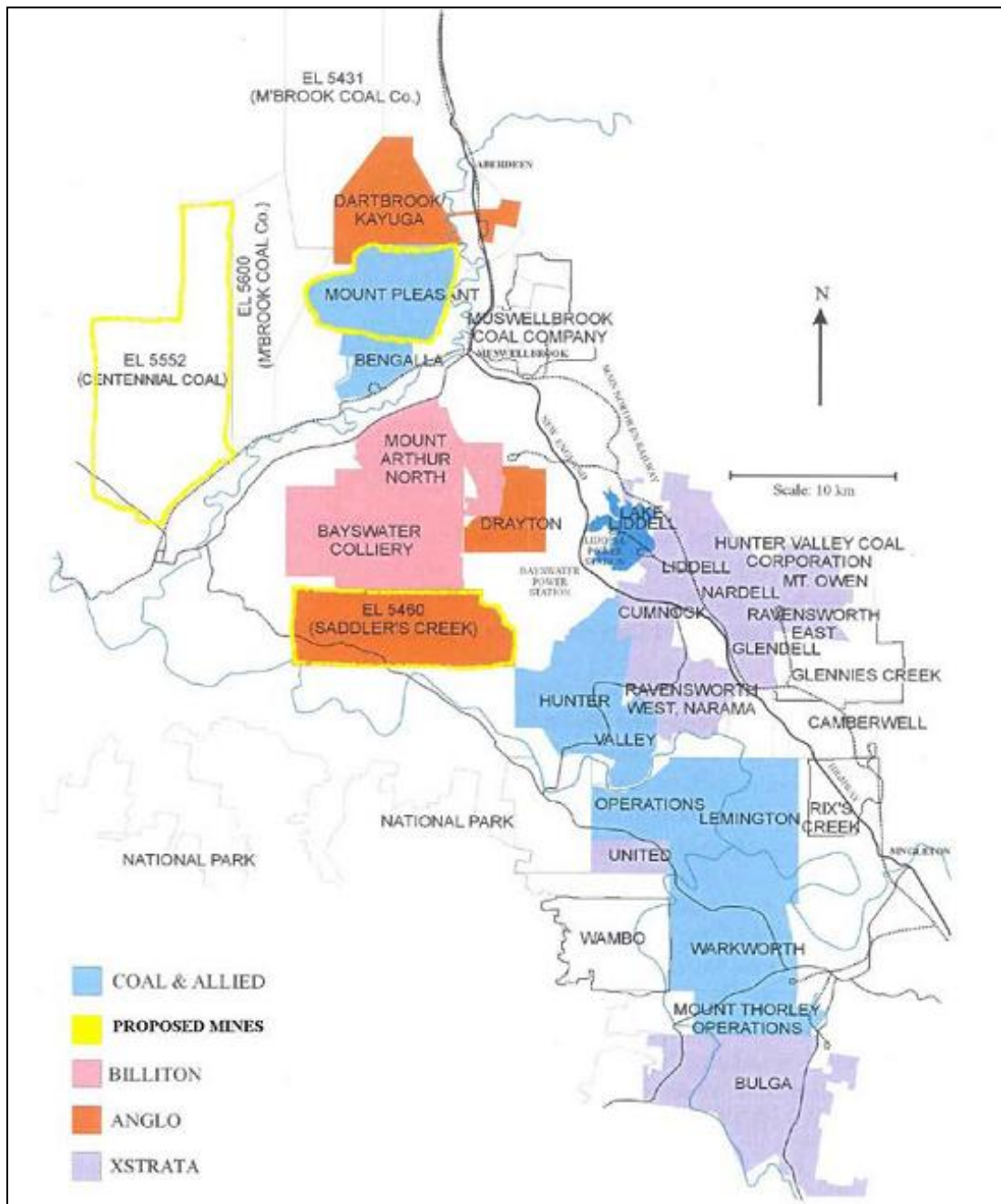
Figure 1.1 Locations of C&A's Operations



Source: www.coalandallied.com.au

The C&A mining leases pertaining to these four deposits are shown in Figure 1.2.

Figure 1.2 C&A Leases in Hunter Valley



Source: Coal and Allied Industries Ltd, August 2011, background briefing paper to AMC

All mining is currently by open cut methods using a combination of draglines, shovels, excavators and trucks for overburden removal. Front-end-loaders, excavator and trucks are used for coal mining. Multiple coal seams are mined from one or more pits at each operation. Run-of-Mine (ROM) coal is currently processed through five on-site coal preparation plants to produce both semi-soft coking coal and thermal coal primarily for the export market. Coal is railed through the Hunter Valley rail network to the Port

Waratah coal loading terminal at Newcastle. Each operation is further described in Sections 2 to 5, and the Port Waratah terminal in Section 6.

1.2 Modelling Scenarios

AMC has prepared a schedule of prospective production as part of its modelling scenarios for use by LEA. The schedule commences with production sourced from C&A's Life-of-Mine (LOM) plans, including production from existing and extended open pits and from establishment of the MTP open pit operation. The schedule also includes production, in addition to and generally subsequent to that included in the LOM plans, from defined coal resources at each deposit. This additional production, termed 'expansion production' is sourced primarily from additional or extended open pits, but also from proposed underground longwall coal mines. C&A have commenced initial evaluations of underground mining options.

In AMC's opinion, C&A's LOM plans for each individual operation have been developed to an appropriate standard. Each plan comprises adequate mining fleet, personnel and operating and capital costs to achieve the annual objectives. AMC has compared the operation metrics, such as production rates and unit costs, used by C&A for forward planning, with actuals from past production and considers the metrics to be reasonable.

C&A has completed preliminary evaluations and studies to develop the expansion plans. In AMC's opinion, the planned production and the assumed operating and capital costs are appropriate.

Given the substantial reserves and resources and the mine expansion options available from C&A's deposits, AMC considers it reasonable that production will extend and expand to utilise available port capacity. Expansion production is scheduled to commence later in the mine life and generally does not commence until 2025 or later.

C&A's LOM plans are based on current coal reserves. Expansion production in most cases relies on the expectation that C&A will successfully convert coal resources to coal reserves with further drilling and evaluation. AMC believe that this expectation is reasonable. In most cases, AMC has accepted C&A's LOM and expansion production plans, but in some cases has re-scheduled the start-up of new mines based on AMC's expectation that the coal transport chain will constrain the production build-up.

AMC's schedule of prospective coal production and other mining production details, combined for all four mines (ignoring ownership proportions), are summarised annually to 2040 in Table 1.1.

The waste to open pit ROM coal strip ratio (bank cubic metre waste per tonne ROM coal or bcm/t) increases from 2010 to 2012 in conjunction with increasing overburden mining to extend the open pits and meet increased annual coal production. In subsequent years, the annual strip ratio, averaged for the four operations, ranges from 4.2 bcm/t to 5.8 bcm/t. This is generally due to the timing of overburden pre-strip activities at commencement of a new pit. Additional open pit mining equipment will be required to achieve the increased coal and waste mining production rates shown in Table 1.1. Quantities are shown in millions of tonnes (Mt) and millions of bank cubic metres (Mbcm). Prime waste is insitu non-coal material and excludes rehandled waste material.

AMC scheduled underground mining to commence in 2028. With underground mining options currently at initial planning stages, AMC believes scheduled timing to commence underground mining is reasonable.

Table 1.1 AMC's Schedule of Prospective Production for C&A's Combined Operations (100% Terms)

	Year	Product Coal (Mt)	Underground ROM Coal Mined (Mt)	Open Pit ROM Coal Mined (Mt)	Prime Waste (Mbcm)	Open Pit ROM Coal Strip Ratio (bcm/t)
Actual	2008	24.0	0	34.7	156	4.5
	2009	23.3	0	33.5	159	4.7
	2010	24.7	0	35.7	182	5.1
Forecast	2011	28.2	0	41.7	219	5.3
	2012	33.4	0	47.2	243	5.2
	2013	34.7	0	47.8	238	4.9
	2014	41.7	0	57.1	268	4.6
	2015	48.5	0	62.4	302	4.6
	2016	47.8	0	65.6	260	4.5
	2017	48.4	0	65.9	331	4.8
	2018	49.0	0	66.1	310	4.5
	2019	48.5	0	64.8	303	4.5
	2020	48.2	0	65.2	284	4.2
	2021	48.5	0	65.4	295	4.8
	2022	48.4	0	65.5	317	4.9
	2023	48.3	0	65.1	319	4.6
	2024	49.0	0	66.0	305	4.9
	2025	48.5	0	65.7	321	4.8
	2026	47.8	0	65.2	310	4.5
	2027	49.2	0	66.0	299	4.9
	2028	50.9	1.8	65.7	323	5.3
	2029	51.9	3.5	65.2	348	5.3
	2030	49.6	3.5	62.2	332	5.3
	2031	49.3	5.5	61.9	320	5.2
	2032	51.0	7.5	63.2	341	5.4
	2033	50.2	7.5	62.5	322	5.2
	2034	48.3	7.5	60.3	326	5.4
	2035	45.0	7.5	52.4	280	5.3
	2036	44.8	7.5	49.4	273	5.5
	2037	45.2	7.5	49.4	279	5.6
	2038	45.0	7.5	49.4	287	5.8
	2039	45.2	7.5	49.4	285	5.8
	2040	45.2	7.5	49.3	276	5.6

1.3 Processing

1.3.1 Coal Quality

Coal quality projections are based on a substantial history of washing the current suite of coals, and on crushed slim core data from exploration drilling. In AMC's opinion, this is not a fully rigorous method for predicting future yield and product quality. Some uncertainty therefore exists in estimates of yield and quality projections.

1.3.2 Coal Preparation

C&A's coal production forecasts in future years exceed current actual performance and are planned to be achieved mainly by using the latent Coal Handling and Processing Plant (CHPP) capacity. Several strategic projects are in progress at the MTW and HVO CHPPs that aim to moderately improve production via small yield and/or throughput gains.

Achieving the forecast production targets will require higher plant utilisation than has been forecast (somewhat conservatively) in the past. The throughput rate will also need to be higher than has been generally achieved. In AMC's opinion, the higher utilisation is achievable, but the combination of higher utilisation and higher throughput rate may mean the targeted production cannot be met in all cases.

Increased CHPP capacity, above that envisaged in the LOM plan for each operation would likely require significant investment and would need to be considered in conjunction with expansions in capacity of both the upstream down downstream capacity of the coal handling and transport system.

Historical and forecast operating cost information for the CHPPs has been reviewed by AMC. On the basis of this information, AMC believes the cost forecasts used by C&A in its LOM plan are reasonable.

While annual coal production is relatively constant for the combined four C&A operations from 2015 onwards (Table 1.1), production from individual operations and therefore utilisation of CHPP capacity varies over the thirty year schedule.

1.4 Environment and Community

1.4.1 Current Operations

All three operational mines operate less than 5 km of residential receptors. As such, the three operating mines face typical operational constraints relating to actual or perceived dust, noise, blast overpressure and fume. These issues are managed on an ongoing basis with a number of projects and programmes aimed at performance improvement.

The three operational mines also face the typical challenges of water (surface and groundwater) and land management (ecology, land rehabilitation). These issues appear to be well managed with evidence of successful management and ongoing performance improvements.

There have been some occasional instances of non-conformances. However, these are not uncommon on operational mines and are not considered to be an indication of poor environmental management.

1.4.2 Mine Closure Costs

Environmental costs associated with mine closure, including mined land rehabilitation, have been calculated and provided in the LOM Plans for the three operational mines as well as the proposed MTP project. These costs have been included in AMC's production scenarios provided to LEA.

1.4.3 Proposed Expansions, Extension and New Projects

Approvals are in place for mining rates of approximately 87.2 Mtpa ROM coal for the three operational mines and the proposed MTP project. The existing approvals will require renewal from 2017 through to 2030.

A significant proportion of the LOM plans, production rate and expansion of mine areas are subject to approval from the Australian Federal and New South Wales governments.

Expansion of coal chain infrastructure by service providers, including rail capacity expansion and port expansion, are subject to approval from the Australian Federal and New South Wales governments.

The approvals processes pose risks to achieving targeted production and export rates due to:

- Potential for refusal of a new project, or expansion, extension or renewal project.
- Potential delays to projects due to approval process requirements, changes in legislation, delays by approval authorities or changes in government.
- Introduction of onerous, costly or unmanageable approval conditions (for example, biodiversity and ecological offsets).

However, many of these issues can be managed through refinement of projects and negotiation with approval authorities.

1.4.4 Summary of Environmental and Community Risks

Community, political and regulatory pressures will continue to impose requirements for continuing improvement in environmental performance, and consequently, costs for environmental management.

These pressures also pose risks of delays (via approval processes) or imposition of increasingly onerous environmental requirements for proposed extension and expansion projects.

At worst, adverse community, political and regulatory pressures could restrict or potentially prevent the extension or expansion projects from proceeding. However, there are very few recent incidences of non-approval of coal mining projects in NSW.

2 MOUNT THORLEY WARKWORTH

2.1 Introduction

The Mount Thorley Warkworth Mine (MTW) is situated 14 km south-west of Singleton and 85 km from the Port of Newcastle. It is mining complex comprising two mines owned by separate joint ventures: Mount Thorley Co-venture owned 80% C&A and 20% Posco; and the Warkworth Joint Venture, owned 55.574% C&A, 34.898% Mitsubishi and 9.528% Nippon Steel. The two joint ventures entered into a formal agreement to integrate their operations in January 2004, with operational integration occurring on 12 February 2004. C&A operates MTW on behalf of the owners.

The mine produces semi-soft coking coal and thermal coal for the export market and some domestic coal for local power station feedstock. The Putty Road, the main link between Singleton and Windsor/Richmond, separates the two mining areas.

The separate Warkworth and Mt Thorley open cut operations commenced in April and July 1981 respectively.

Waste removal is by shovel and/or excavators and trucks, and by draglines. Front-end-loaders and/or excavators and trucks are used for coal mining. The current major stripping equipment consists of three draglines (a BE 1370, Marion 8200 and a P&H 9020) all currently operating on the Warkworth lease, three rope shovels, five hydraulic excavators, a number of front-end-loaders and about 70 rear dump trucks.

There are two separate CHPPs: one on the Mt Thorley lease (the South Plant) and one on the Warkworth lease (the North Plant). All coal is railed from the Mt Thorley Rail Loop. Historical and forecast operating cost information for the CHPPs has been reviewed by AMC. On the basis of this information, AMC believes the cost forecasts used by C&A in its LOM plan are reasonable.

2.2 Resources and Reserves

Published total MTW coal resources, exclusive of reserves, at 31 December 2010 are shown in Table 2.1.

Table 2.1 Coal Resources at 31 December 2010⁴

Type	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
Open-cut (export thermal and semi-soft coking)	5.1	94.5	99.5	199.1
Underground (export thermal and semi-soft coking)	–	104.5	272.5	377.0
Total	5.1	199.0	372.0	576.1

⁴ Source: Rio Tinto, February 2011, The Coal Resources and Coal Reserves of the Mt Thorley Warkworth Mine - 2010

Published total MTW coal reserves at 31 December 2010 are shown in Table 2.2.

Table 2.2 Coal Reserves at 31 December 2010⁴

Mine	Recoverable Coal Reserves (Mt)				Marketable Coal Reserves (Mt)				
	Proved	Probable	Total	Average Yield	Proved	Probable	Total	MJ/kg	TS (%)
Mt Thorley	31.4	5.2	36.6	65.0%	20.6	3.2	23.8	29.41	0.43
Warkworth	215.2	184.7	399.9	65.2%	139.8	120.9	260.7	30.68	0.44
Total	246.6	189.9	436.5	65.2%	160.4	124.1	284.5	30.57	0.44

AMC considers that the MTW coal resource and reserve estimates have been prepared using appropriate methods by competent persons, and have been classified and reported in accordance with the JORC Code.

2.3 Environment and Community

2.3.1 Current Operations

Key environmental issues include:

- The proximity of nearby sensitive receptors surrounding the mine necessitates careful management of dust, blast overpressure, blast fume and noise.
- A range of noise and dust mitigation measures (similar to those at HVO, refer to Section 3.3.1) has been implemented in response to noise and air quality concerns.
- The mine has demonstrated successful post mining rehabilitation of land.
- The site has a water abstraction license for 1 GLpa high security and a new storage dam of 2.4 GL. The operation is considered to be in water balance neutral. However, a drought management strategy has been developed. A total of 599 ML was discharged from site in 2010. There is seepage of 1-2.5 MLpd into the pits from the aquifer.
- The site water management system has functioned effectively in times of recent drought and in recent flood conditions.
- The site accumulates saline waters, and salinity is an issue in the Hunter River. The site is required to manage salinity load/concentrations to the Hunter River (during discharges) in accordance with the Hunter River Salinity Trading Scheme.
- An accumulation of saline water in rehabilitated pits and across the site will require management through discharge to the river and ultimately management within final voids.

Key community relations issues include:

- Nearby residents, environmental groups and the broader community take an active interest in the MTW project and surrounding mines. This interest extends to seeking input and response from local council, local members of parliament and regulators.

- Typical issues include noise, dust, blast overpressure, blast fume, water resources and land rehabilitation.
- Complaints totalled 68 for the year 2010 (predominantly noise related).

2.3.2 Expansion, Extension and New Projects

Development consent/environmental protection licenses exist for:

- Mount Thorley valid to 26 June 2016 for 10 Mtpa ROM and
- Warkworth South valid to 20 May 2021 for 18.0 Mtpa ROM.

Potential expansion/extension projects are under consideration by C&A, predominantly providing for the development of new resources and extension of the MTW project life.

Warkworth Extension Project involves:

- The extension of the existing North and West pits to allow for the extraction of coal to the west of the existing mining area. The maximum production rate for Warkworth Mine will remain at the currently approved rate of 18 Mtpa of ROM coal.
- Replacing Warkworth Mine's ageing equipment fleet to improve mining efficiency.
- The completion, filling and rehabilitation of CD Pit, South Pit and Woodlands Pit.
- Upgrading some support infrastructure.
- Transferring overburden and coal between Warkworth Mine and Mount Thorley Mine.
- The Environmental Assessment was on exhibition until 15 June 2010. The application is currently under assessment by the NSW government. The assessment process and timeframe is uncertain due to changes in NSW government and changes to legislation, which is reportedly causing delays to the assessment and determination process for this project. If and when approved by the NSW government, the project will be assessed by the Australian Federal government. A Biodiversity Offset Strategy has been developed for the project to compensate for the impacts on biodiversity.

The approvals process for any MTW underground project has not commenced. Typically a new mine extension approvals process could take from three to five years, although this project is anticipated to be a less contentious project as it involved mining beneath existing disturbed areas.

2.3.3 Risks

In summary, there is a range of environmental challenges to the operation of MTW. However, these are managed via existing procedures and systems. MTW has demonstrated reactive and proactive environmental management measures and continuous improvement in environmental performance.

The increasing community interest in mining operations (MTW and other mines in the area), environmental performance and concerns about expansion is anticipated to result in increasing scrutiny of, and regulatory requirements for, existing operations. Additionally, these pressures could potentially affect the viability of future mine life extension and expansion projects via planning refusal (being the worst and least likely case), restrictions or increasingly onerous environmental performance requirements (of less consequence and more likely).

MTW is actively engaging with the community and pursuing improved environmental performance. It is anticipated that this will demonstrate good practice and help facilitate ongoing operation and extension and expansion projects.

Recent changes to government and planning legislation in NSW have resulted in complication of the approvals process for the Warkworth Extension Project. The ongoing uncertainty for the approvals process for the Warkworth Extension Project remains a key risk to the ongoing project, likely to result in delays to expansion and extension.

In AMC's opinion, ongoing good practice and demonstrated good environmental performance, together with ongoing active community engagement and responsiveness will be critical to the ongoing operations and development of MTW.

The approvals for the extension project remain a risk. Non-approval of the project (by the NSW government) would be a dramatic change in direction from recent precedents for relatively low-moderate impact mine project extensions, as compared to a new and more complex/controversial project.

3 HUNTER VALLEY OPERATIONS

3.1 Introduction

Hunter Valley Operations (HVO) is located in the upper Hunter Valley area of New South Wales, approximately 20 km west of Singleton. Open cut mining commenced in the area in 1949 when the operating arm of the Joint Coal Board, the New South Wales Mining Company, started the Foybrook Open Cut. The Howick open cut mine commenced shortly afterwards in 1952, followed by the Lemington open cut and underground mine in 1971, and the Hunter Valley No.1 open cut mine in 1979. Through acquisition and expansion, HVO now consists of all the aforementioned mines which have been amalgamated into one large mining operation. Mining activities at HVO are geographically divided by the Hunter River into HVO North and HVO South, with current operational activities consisting of the West pit and the Carrington pit in the North, and the Cheshunt and Riverview pits in the South.

All coal is currently mined by open cut methods using a combination of draglines, shovels, excavators and trucks for overburden removal. Some 15 seams are mined from a combination of pits and mining thicknesses vary from 0.3 m to around 6 m. ROM coal is processed through two on-site coal preparation plants to produce a semi-soft coking coal and low, medium and high ash thermal coal for the export market. Product coal is railed through the Hunter Valley rail network to the Port Waratah coal loading terminal at Newcastle some 75 km to the east.

The annual output from HVO over recent years has been around 10-11 Mt of product coal. C&A's LOM plan envisages product coal production increasing to 13 Mt in 2011 and 14 Mt by 2012. To achieve this increase, prime overburden removal will have to increase from 73 Mbcm in 2010 to 100 Mbcm in 2011, and from 2012 onwards will need to vary from around 100-110 Mbcm per annum. Overburden and coal production are planned to remain at these expanded levels until 2025, at which time coal output will start to reduce as reserves are depleted. To sustain production rates beyond 2025 a portion of the coal resources currently lying outside the planned pit outlines will need to be converted to reserves.

3.2 Resources and Reserves

Published total HVO coal resources, exclusive of reserves, at 31 December 2010 are shown in Table 3.1.

Table 3.1 Coal Resources at 31 December 2010⁵

Type	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
Open-cut (export thermal and semi-soft coking)	200.9	427.9	242.7	871.5
Underground (thermal and semi-soft coking)	–	–	125.0	125.0
Total	200.9	427.9	367.7	996.5

⁵ Source: Rio Tinto, February 2011, The Coal Resources and Coal Reserves of the Hunter Valley Operations - 2010

Published total HVO coal reserves at 31 December 2010 are shown in Table 3.2.

Table 3.2 Coal Reserves at 31 December 2010⁵

Recoverable Coal Reserves (Mt)				Marketable Coal Reserves (Mt)				
Proved	Probable	Total	Average Yield	Proved	Probable	Total	MJ/kg	TS (%)
337.2	48.7	385.9	68.2%	229.4	33.7	263.2	29.0	0.58

AMC considers that the HVO coal resource and reserve estimates have been prepared by competent persons using appropriate methods, and have been classified and reported in accordance with the JORC Code.

The current major stripping equipment consists of two draglines, three rope shovels, five hydraulic excavators, a number of front-end-loaders and about 70 rear dump trucks. To achieve the LOM plan, the fleet size will increase by two rope shovels, four front-end-loaders and ten rear dump trucks.

The individual mines that comprise HVO have operated for more than 30 years. The equipment performance and cost history is used to develop the LOM plan, in particular determining equipment productivity, operating hours, manning numbers and operating costs.

In AMC's opinion, the assumed dragline productivity is achievable based on previous dragline performance at HVO and elsewhere within the Hunter Valley. Similarly, AMC is of the view that the hours allocated to the excavators, together with the introduction of additional trucks and support equipment, is sufficient to move the overburden and coal quantities as shown in the mining schedule.

The total workforce increases slightly from around 1,500 (including contractors) in 2010 to 1,640 in 2011 and then remains reasonably constant until the production rates reduce in 2025. In AMC's opinion, C&A's workforce assumption is sufficient to achieve the annual quantities shown in the mining schedule.

Based on the reported marketable coal reserves of 263 Mt, the LOM plan would see those reserves depleted by 2029. C&A's expansion production scenario assumes a future conversion of resources to reserves to extend the mine life. A total of 871 Mt of coal resources are estimated to exist outside the planned pit outlines. A further 125 Mt of resources lies in areas potentially suitable for underground mining. The expansion scenario assumes that an additional 246 Mt of marketable coal will be derived from these resources. Based on AMC's review of these resources, AMC considers this assumption to be reasonable.

3.3 Environment and Community

3.3.1 Current Operations

Key environmental issues include the following:

- The proximity of nearby sensitive receptors (the rural residences at Maison Dieu to the east of HVO and other residences around the mine area) necessitates careful management of dust, blast fumes and noise. A range of noise and dust mitigation measures have been implemented in response to noise and air quality concerns. These include retrofitting additional silencers to trucks, real time noise monitoring, aerial seeding of waste dumps and operational response to real time wind speed monitoring.
- The mine has successfully rehabilitated alluvial and non-alluvial land.
- The proximity of mining to alluvial aquifers required the installation of a slurry curtain to prevent groundwater movement from the Hunter River through alluvial aquifers to the pits. The slurry curtain is reported to be functioning well with ongoing monitoring of groundwater levels on both sides of the curtain.
- The site has water abstraction licenses (4.1 GLpa high security) although this capacity is not used in high rainfall years. Recent high rainfall conditions have necessitated the discharge of water into the Hunter River.
- The site water management system has functioned effectively in times of drought and in flood conditions.
- The flood protection infrastructure (levees at North pit, Carrington and two levees at the South pit) functioned effectively during floods in recent years.
- The site accumulates saline waters and salinity is an issue in the Hunter River. The site is required to manage salinity load/concentrations when discharging into the Hunter River in accordance with the Hunter River Salinity Trading Scheme.
- An accumulation of saline water in rehabilitated pits and across site generally will require management through discharge and storage within final voids.
- Independent audit reports identified some non-compliances relating to air quality, noise and water management. The auditors noted that C&A staff were aware of, and actively addressing, these matters.

Key community relations issues include the following:

- Nearby residents, environmental groups and the broader community take an active interest in the HVO project and surrounding mines. This interest extends to seeking input and response from local council, local members of parliament and regulators.
- Typical issues include noise, dust, blast fumes, water resources, land rehabilitation and the isolation or loss of agricultural land.
- A total of 35 complaints were lodged in 2010 and 63 complaints from January to July 2011 (predominantly noise related).

3.3.2 Expansion, Extension and New Projects

Existing development consent/environmental protection licenses:

- HVO north valid to 16 June 2025 for 22 Mtpa ROM.
- HVO south valid to 24 March 2030 for 16.0 Mtpa ROM.

A range of potential expansion/project extension projects are under consideration, predominantly providing for the development of new resources and extension of the HVO project life, rather than an increased rate of mine production. The approvals process for these has not yet commenced.

Typically these approvals processes could take from three to five years to complete depending on complexity of environmental issues.

3.3.3 Risks

In summary, there are a range of environmental challenges to the operation of HVO. However, these are managed via existing procedures and systems. HVO has demonstrated reactive and proactive environmental management measures and continuous improvement in environmental performance.

The increasing community interest in mining operations (HVO and other mines in the area), environmental performance and concerns about expansion is anticipated to result in increasing scrutiny of, and regulatory requirements for, existing operations. Additionally, these pressures could potentially affect the viability of future mine life extension and expansion projects via planning refusal (being the worst and least likely case), restrictions or increasingly onerous environmental performance requirements (of less consequence and more likely).

HVO is actively engaging with the community and pursuing improved environmental performance. It is anticipated that this will demonstrate good practice and help facilitate ongoing operation and extension and expansion projects.

It is concluded that ongoing good practice and demonstrated good environmental performance, together with ongoing active community engagement and responsiveness will be critical to the ongoing operations and development of HVO.

4 BENGALLA MINE

4.1 Introduction

Bengalla Mine (BEN) is located approximately three kilometres west of Muswellbrook and 130 km by rail from the Port of Newcastle. The site is adjacent to the proposed Mount Pleasant project. It is operated as an integrated excavator/truck and dragline operation with the excavator/truck fleet carrying out pre-strip ahead of the dragline. ROM coal is processed through a single on-site coal preparation plant to produce thermal coal for the export market. The mine commenced production in 1998.

The main stripping equipment currently consists of one dragline, three hydraulic excavators, a front-end-loader and about 15 rear dump trucks.

4.2 Coal Resources and Coal Reserves

Published total BEN coal resources, exclusive of reserves, at 31 December 2010 are shown in Table 4.1.

Table 4.1 Coal Resources at 31 December 2010⁶

Type	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
Open-cut (export thermal)	11.8	17.5	18.9	48.2
Underground (export thermal)	–	–	34.5	34.5
Total	11.8	17.5	53.4	82.7

Published total BEN coal reserves at 31 December 2010 are shown in Table 4.2.

Table 4.2 Coal Reserves at 31 December 2010⁶

Recoverable Coal Reserves (Mt)				Marketable Coal Reserves (Mt)				
Proved	Probable	Total	Average Yield	Proved	Probable	Total	MJ/kg	TS (%)
161.6	9.9	171.5	79.9%	129.1	7.9	137	27.8	0.48

AMC considers that the BEN coal resource and reserve estimates have been prepared by competent persons using appropriate methods, and have been classified and reported in accordance with the JORC Code.

⁶ Source: Rio Tinto, February 2011, The Coal Resources and Coal Reserves of the Bengalla Mine - 2010

4.3 Environment and Community

4.3.1 Current Operations

Key environmental issues include the following:

- The proximity of nearby sensitive receptors (the township of Muswellbrook within 4 km of the coal lease boundary and other residences around the mine area) necessitates careful management of dust, blast (overpressure and fumes) and noise.
- A pollution reduction programme has been issued by the NSW Department for Environment and Climate Change for air quality for the Bengalla mine (and other nearby mines). However, measures are already in place for the ongoing management of these issues (e.g. membership of the Hunter Valley air action plan).
- Blasting is very carefully controlled and managed to prevent exceedance of limits and maintain community relations.
- The mine has demonstrated successful rehabilitation of mined land.
- The site water balance is generally water deficit (usage of 500-800 MLpa) and accordingly BEN has water abstraction licenses (currently 1 GLpa high security and purchase of an additional 0.449 GLpa is in progress). There have been occasional discharges from site during recent wetter years.
- The site has limited operating space and manages tailings by belt press and in pit disposal. Waste rock dump capacity behind the mining face is limited.
- Independent audit reports identified some non-compliances relating to air quality, noise and water management. The auditors noted that C&A staff were aware of, and actively addressing these matters.

Key community relations issues include:

- Nearby residents, environmental groups and the broader community take an active interest in the BEN project and surrounding mines. This interest extends to seeking input and response from local council, local members of parliament and regulators.
- Typical issues include noise, dust, blast fumes, blast overpressure, water resources, land rehabilitation and the isolation or loss of agricultural land.
- Complaints totalled 13 (from 9 complainants) in the first half of 2011 and 35 for the year 2010; and by comparison, 1010 complaints in 1999.

4.3.2 Expansion, Extension and New Projects

The existing development consent/environmental protection licenses are valid to 7 August 2017 for a production rate of 10.7 Mtpa ROM coal.

Potential expansion/extension projects are under consideration by C&A. The Bengalla modification No 4 project comprises the following changes to the existing consent:

- The existing Overburden Emplacement Area is extended to the south-east.
- The finalisation and permanent rehabilitation of the northern face of the existing Overburden Emplacement Area to occur by 2016, instead of 2012, with continued temporary rehabilitation in the meantime. Permanent rehabilitation of the eastern face, which is visible from Muswellbrook, will continue as soon as possible.
- The already approved temporary Overburden Emplacement Area is relocated further to the west, away from areas to be mined.

The Bengalla modification No 4 project is currently under assessment by the NSW government. Other expansion project approvals processes have not yet commenced.

The current uncertainty regarding approvals for mining projects in NSW may pose a risk to BEN, should there be a delay in approving the extension/modification.

4.3.3 Risks

In summary, there is a range of environmental challenges to the operation of BEN; however, these are managed via existing procedures and systems.

As per HVO and MTW, community interest in mining is potentially driving increased expectations for environmental performance for BEN.

BEN is actively engaging with the community and pursuing improved environmental performance. It is anticipated that this will demonstrate good practice and help facilitate ongoing operation and extension and expansion projects.

Recent changes to government and planning legislation in NSW have resulted in complication of the approvals process for the BEN modification and expansion projects. The ongoing uncertainty for the approvals process for the BEN remains a key risk to the ongoing project, may result in delays to ongoing operations, expansion and extension.

5 MOUNT PLEASANT DEVELOPMENT PROJECT

5.1 Introduction

The Mount Pleasant (MTP) deposit is located adjacent to the existing Bengalla Mine. The project is owned 100% by C&A and comprises two mining titles, A459 and MLA100.

The proposed mine would produce thermal coal for the export market. Waste removal will be by excavators and trucks and by draglines. Front-end-loaders and/or excavators and trucks are used for coal mining. A single CHPP is planned to produce 8.5 Mtpa saleable coal.

5.2 Coal Resources and Coal Reserves

Published total MTP coal resources, excluding reserves, at 31 December 2010 are shown in Table 5.1.

Table 5.1 Coal Resources at 31 December 2010⁷

Type	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
Open-cut (export thermal)	162.5	244.7	80.8	488.0
Underground (export thermal)	–	–	124.4	124.4
Total	162.5	244.7	205.2	612.4

Published total MTP coal reserves at 31 December 2010 are shown in Table 5.2.

Table 5.2 Coal Reserves at 31 December 2010⁷

Recoverable Coal Reserves (Mt)				Marketable Coal Reserves (Mt)				
Proved	Probable	Total	Average Yield	Proved	Probable	Total	MJ/kg	TS (%)
–	394.2	394.2	82.1%	–	323.7	323.7	26.8	0.47

AMC considers that the MTP coal resource and reserve estimates have been prepared by competent persons using appropriate methods, and have been classified and reported in accordance with the JORC Code.

5.3 Mining

5.3.1 Life of Mine Plans

Current planning studies for MTP envisage production of 8.5 Mtpa total sales by 2015 through to 2040.

The main stripping equipment will comprise one large dragline, 3-4 hydraulic excavators, a number of front-end-loaders and 20-25 rear dump trucks.

⁷ Source: Rio Tinto, February 2011, The Coal Resources and Coal Reserves of the Mt Pleasant Project- 2010

5.3.2 Expansion Plans

C&A's LOM plan for MTP is based on the completed MTP pre-feasibility study with the feasibility study is currently in progress. AMC has reviewed key documents relating to the studies and believes that the LOM plan provides a reasonable estimate of future production rates, coal quality, capital costs and operating costs.

5.3.3 Risks

AMC believes the key risk identified in the LOM plan for this project is achieving coal production within three years of Board approval to commence the project in late 2011. Delays with approvals, equipment procurement or mine site infrastructure construction would delay planned coal production.

5.4 Environment and Community

5.4.1 Current Operations

The mine is not yet operational.

5.4.2 Expansion, Extension and New Projects

The existing development consent for MTP is valid to 22 December 2020 for a production rate of 10.5 Mtpa ROM coal. The environmental protection license is yet to be granted.

The MTP project was approved (planning approval under the EP&A Act) by the NSW government on 19 September 2011.

The MTP project has not yet received planning approval (under the EPBC Act) from the Australian Federal government. It is noted that the Australian Federal government generally will not provide an approval until the relevant State government has approved the project. C&A estimate that this approval will be received in January 2012.

6 PORT AND RAIL LOGISTICS (INCLUDING PORT WARATAH COAL TERMINAL)

AMC has reviewed information provided by C&A relating to the port and rail infrastructure to form a view on the ability of C&A to meet its LOM and expansion production plan in respect of the delivery of coal by rail to multiple port terminals and shipment from those terminals. AMC has supplemented the information provided by C&A with information from the public domain and confidential information available to AMC. AMC notes that Newcastle Port Corporation use 90% utilisation for port strategic planning and budgeting purposes. Hunter Valley Coal Chain Coordinator (HVCCC) processes and systems should help to improve port utilisation by monitoring and controlling system efficiency losses.

Below rail track infrastructure requires debottlenecking to meet capacity. Progress with this will depend on the outcome of:

- Australian Rail Track Corporation (ARTC) negotiations.
- Planning and scheduling for the debottlenecking programme.

System losses due to interface inefficiencies between rail and port systems are also a risk, but AMC considers that HVCCC monitoring and planning will at least maintain system losses at current levels (10-12%) and possibly improve upon them. If port utilisation is planned at 88-90% (the present levels), the risk of not achieving port throughput is considered to be low. It remains to be demonstrated that current levels of port utilisation can be improved upon in a rapidly growing and increasingly complex system.

In addition, some commercial risk remains due to the necessity to negotiate above and below rail and port logistics contracts. However, AMC considers this to be a low risk.

Based on the above assessment, AMC considers that there is low risk of rail and port logistics infrastructure not meeting C&A's targeted capacity in schedules developed by AMC for LEA.

6.1 Relevance of Environmental Assessment of Rail Network Capacity

The current capacity of the Hunter Valley rail network represents a potential constraint to the achievement of projected export volumes. The proposed expansion projects for the Hunter Valley rail network are typically subject to environmental approval from the Australian and NSW governments. This section identifies the potential risks of delays and restrictions due to environmental approvals to the delivery of the proposed rail network expansion and efficiency projects.

6.1.1 Current Operations

The 2011-2020 Hunter Valley Corridor Capacity Strategy Consultation Document (ARTC, March 2011) identifies the key capacity constraints and expansion requirements for various segments of the Hunter Valley rail network. The Maitland to Port and Muswellbrook to Maitland segments are particularly relevant.

The key constraints identified in the strategy are:

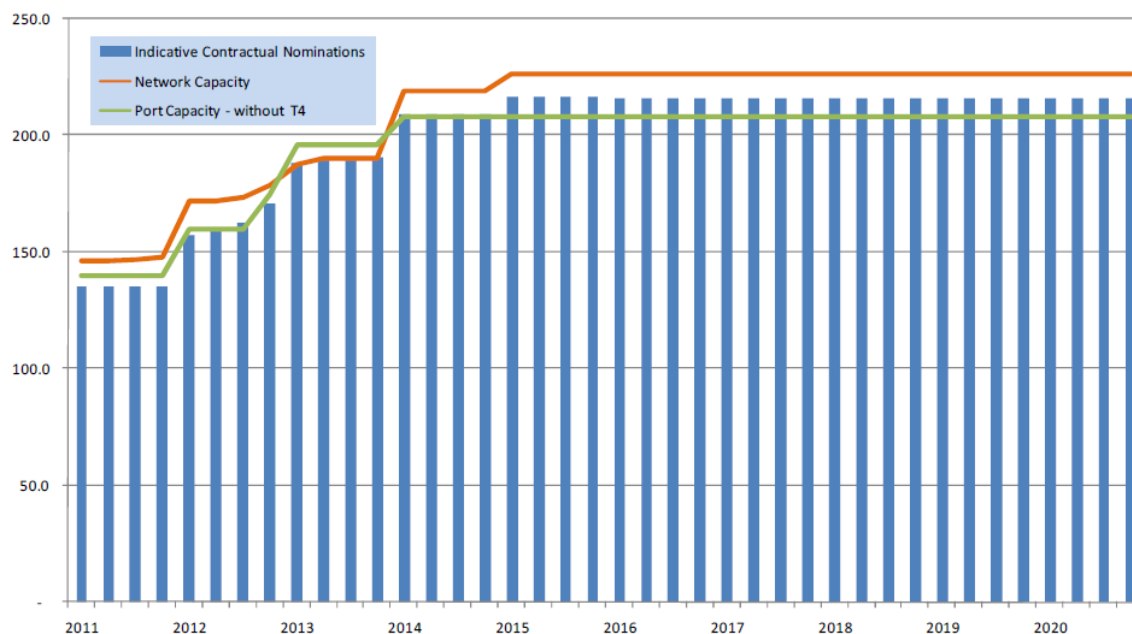
- Maitland to port:
 - Provisioning.
 - Congestion.
 - Kooragang Island Configuration.
- Muswellbrook to Maitland:
 - Headways.
 - Junctions.
 - Continuous flow of trains.

A range of projects has been programmed to address these capacity constraints.

6.1.2 Expansion, Extension and New Projects

The projected rail network demand and supply is shown in Figure 6.1. This shows the requirement for expansion of network capacity to the year 2015. The corresponding programme of expansion projects is provided in Figure 6.2.

Figure 6.1 Rail Network Capacity versus Demand



Source: 2011-2020 Hunter Valley Corridor Capacity Strategy Consultation Document March 2011

Figure 6.2 Programme of Proposed Expansion Projects

	2011	2012	2013	2014
Q1		Wilpinjong	Maitland–Minimbah 3rd Track Area A/B	Port Holding Roads Stage 1 and 2
			Nundah Bank	Muswellbrook Junction
			390 km Loop (Standard Loop)	Bengalla loop extension
			Bell's Gate (Quipolly)	
Q2	Maitland CBI	Pages River	Drayton Junction	
			Bylong Tunnel	
			378 km Loop (Passing Lane @ 371.2 km–374.9 km)	
			390 km Loop (Bylong Loop Extension)	
			Watermark	
Q3		Chilcott's Creek		
		Burilda		
Q4	Bengalla	Maitland–Minimbah 3rd Track Area C	378 km Loop (Loop @ 373.1 km–374.9 km)	
	Koolbury		353 km Loop (Loop @ 354.6km–356.4km or Passing Lane @ 357.3km–Kerrabee)	
	Scone			

Table 9 - Proposed investment program by quarter/year each project is proposed to be available.

Source: 2011-2020 Hunter Valley Corridor Capacity Strategy Consultation Document March 2011

The key large projects of interest appear to be the Maitland to Minimbah third track, and the Nundah Bank third track projects. These projects have now been approved:

- Nundah Bank third track, approved September 2011.
- Maitland to Minimbah third track, approved December 2010.

From review of the Department of Planning and Infrastructure NSW Major Projects Page for Rail Projects, the following other Hunter Valley rail projects are also under consideration:

- Train Support Facility at Greta (approved).
- Hexham Redevelopment Centre – train support facility (application made).

6.1.3 Summary

In summary, a suite of proposed rail projects are required to avoid rail bottlenecks in the Hunter Valley rail network. Based on a preliminary review, some of these projects are approved or under application and would not be held up by environmental approval processes. Unfortunately, the status of all necessary projects is not readily available. However, at face value, it appears that the constraints in the system are well understood, and a coordinated planning and delivery response programme appears to be in place to ensure future rail network capacity. As such, there does not appear to be an immediately obvious risk from rail network capacity.

6.2 Relevance of Environmental Assessment of Port Capacity

The current capacity of the combined coal port terminals represents a potential constraint to the achievement of projected export volumes. The proposed expansion projects for the coal terminals are typically subject to environmental approval from the Australian and NSW governments.

As such, this section identifies the potential risks of delays and restrictions due to environmental approvals to the delivery of the proposed port expansion projects.

6.2.1 Current Operations

The current combined capacity of the coal facilities at Port Waratah (including the Newcastle Coal Infrastructure Group terminal) is approximately 110 Mtpa.

6.2.2 Expansion, Extension and New Projects

Port capacity is anticipated to increase as follows:

- 1st Quarter 2011 – Full commissioning of Newcastle Coal Infrastructure Group (NCIG) Stage 1 lifts capacity to 140 Mtpa (from 110 Mtpa prior to start-up).
- 1st Quarter 2012 – MPC expansion of Port Waratah Coal Services (PWCS) Kooragang Island increases overall capacity to 160 Mtpa.
- 4th Quarter 2012 – KCT Stage 4 (PWCS 4th dump station) expansion results in a capacity increase of 15 Mtpa, resulting in an overall capacity of 175 Mtpa.
- 1st Quarter 2013 – NCIG Stage 2A is expected to be complete, raising capacity to 196 Mtpa.
- 1st Quarter 2014 – NCIG full Stage 2 is expected to be complete, increasing capacity to 209 Mtpa.
- 1st Quarter 2016 – PWCS T4 potentially available, raising capacity to between 254 Mtpa and 309 Mtpa. For illustrative purposes this Strategy has assumed the availability date and a capacity of 60 Mtpa, which comfortably covers demand. (ARTC, March 2011)

A review of the Department of Planning and Infrastructure Major Projects – Ports page provided the following status of environmental approvals for coal port capacity projects at Newcastle:

- Kooragang expansion (approved).
- NCIG coal loader expansion (approved).
- Kooragang coal loader expansion (under assessment).
- Port Waratah Coal Services Terminal 4 (PWCS T4) (Director General's Requirements issued).
- Capital dredging project (Director General's Requirements issued).

6.2.3 Summary

The NCIG Stage 2 project is under construction. The only projects subject to environmental approvals are the capital dredging project and the PWCS T4 project. The approvals processes for these projects have commenced.

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7 EXPLORATION PROJECTS

Most of the exploration projects valued by AMC are largely at a pre-resource stage and methods for valuing such projects are subjective. AMC's approach is to use as many methods as are relevant to a particular project, and to choose from the indicated values a range which it considers appropriate. Limited, if any, use is made of share market indicators given the volatility of markets for speculative exploration. The values accordingly are Technical Values as defined by the Valmin Code.

The methods considered by AMC include:

- The past expenditure method.
- Actual transactions for the project being reviewed or, more frequently, recent comparable transactions applicable to projects considered to have similarities with that under review.
- Yardstick values derived from comparable transactions, where there are mineral resources or mineralisation potential that can be reasonably quantified.

7.1 Exploration Value

AMC assessed the material exploration assets of C&A relevant to this proposed transaction, specifically the Oaklands deposit.

In June 2010, C&A announced that it was assessing the potential sale of its Oaklands deposit. Consequently, AMC has provided the exploration value of the Oaklands deposit to LEA for inclusion in its valuations, but has not reported the exploration value separately in this report.

7.2 Oaklands Deposit

C&A also owns the Oaklands project, for which the company commenced a sale process in June 2010. The deposit has a coal resource of 1.3 billion tonnes and is located in the Southern Riverina district of NSW.

The project lies at the southern end of the Oaklands coal basin, near the town of Oaklands, and is approximately 600 km south-west of Sydney and 300 km north of Melbourne. The nearest ports for coal export are Geelong, which has limited vessel size capability, and Port Kembla, which can accommodate larger vessels than Geelong but is further away from the project site.

The Oaklands project currently holds an assessment lease⁸, which is an intermediate step between exploration and production tenure. Further work will be required to develop the project to a point where a mining lease application may be validly made. C&A expect the Oaklands product coal to be broadly comparable with a number of low rank Indonesian thermal coals currently traded on the international export market.

⁸ An assessment lease is designed to allow retention of rights over an area in which a significant deposit has been identified, if mining the deposit is not commercially viable in the short term but there is a reasonable prospect that it will be in the longer term, the holder is allowed to continue prospecting operations and to recover minerals in the course of assessing the viability of commercial mining.

8 QUALIFICATIONS

AMC is a firm of mineral industry consultants whose activities include the preparation of due diligence reports and reviews on mining and exploration projects for equity and debt funding and for public reports.

Signatories to this report are Mr P Smith, MAusIMM(CP) and Mr M Thomas, MAusIMM(CP). Both Mr Smith and Mr Thomas are employees of AMC.

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9 TABLE OF ABBREVIATIONS AND DEFINITIONS

AMC	AMC Consultants Pty Ltd
LEA	Loneragan Edwards & Associates Limited
C&A	Coal & Allied Industries Limited
Rio Tinto	Rio Tinto Limited
Mitsubishi	Mitsubishi Development Pty Ltd
MTW	Mount Thorley Warkworth
HVO	Hunter Valley Operations
BEN	Bengalla Mine
MTP	Mount Pleasant Development Project
ASIC	Australian Securities and Investment Commission
RTCA	Rio Tinto Coal Australia Pty Ltd
JORC	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).
VALMIN	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, The VALMIN Code 2005 Edition, Prepared by The VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.
ROM	Run-of-Mine
LOM	Life-of-Mine
bcm/t	Bank cubic metres waste per tonne ROM coal
Mt	Million tonnes
Mbcm	Million bank cubic metres
Prime Waste or Prime overburden	In-situ non-coal material excluding re-handled waste
CHPP	Coal Handling and Processing Plant
MJ/kg	Millions of Joules per kilogram coal (energy)
TS %	Percentage total Sulphur
Receptor	Residential area potentially affected by mine site activities
GL	Gigalitre
ML	Megalitre
MLpd	Megalitre per day