



## News release...

Date: 20 April 2004  
Ref: PR364g

*Coal & Allied Industries (Rio Tinto 75.7 per cent) issued the following address by the chairman, Brian Horwood, following the annual meeting of shareholders in Australia today. Dollar amounts are in Australian currency.*

### Coal & Allied AGM - Chairman's address

The year 2003 proved to be a very challenging and sometimes difficult for Coal & Allied. It was also a year that saw a significant change in management direction through the creation of Rio Tinto Coal Australia, about which I will have more to say later.

Throughout 2003, Australia's thermal coal industry was badly affected by the combined impacts of the strong Australian dollar and lower realised coal prices. Added into this equation for Hunter Valley producers were significantly increased demurrage charges.

In the face of these difficult conditions, Coal & Allied focused its activities throughout 2003 on implementing operational cost reductions and business improvements. Matching production with demand and increasing operational flexibility enabled the business to respond to changes in the marketplace. In the second quarter of 2003, Coal & Allied elected to reduce production in response to weaker market conditions.

Last December, Coal & Allied foreshadowed a loss for 2003 of approximately \$30 million. However, the company achieved a break-even position, after a decision to join the tax consolidation regime, which resulted in a tax benefit of \$29.6 million.

#### **A brief financial summary is as follows:**

- Net profit after tax was \$100,000 compared with \$159.7 million in 2002.
- Restructuring costs after tax of \$10.5 million were provided to cover expenses associated with the rationalisation of management, corporate and administrative functions.
- Net debt in Australian dollar terms has reduced by 11.1 per cent in 2003 to \$455.3 million.
- No final dividend on ordinary shares will be paid. A final preference dividend of 1.75 cents per share will be paid. This brings total dividends for 2003 to 3.5 cents per preference share and 40 cents per ordinary share.

Turning now to the new management arrangement, after careful consideration by all your directors in December 2003, Coal & Allied agreed with Rio Tinto to combine Coal & Allied's corporate and service functions with those of Pacific Coal from 1 February 2004.

**Cont.../**

Rio Tinto plc 6 St James's Square London SW1Y 4LD  
Telephone 020 7930 2399 Fax 020 7930 3249

REGISTERED OFFICE: 6 St James's Square London SW1Y 4LD Registered in England No. 719885

Rio Tinto Coal Australia (previously named Pacific Coal) is now responsible to the Coal & Allied Board for the day-to-day management of the coal operations of Coal & Allied, under a management services agreement. Both businesses are managed from a single corporate office in Brisbane.

These changes to head office administration and support structures, along with operational management changes, will deliver annual pre-tax savings in excess of A\$20 million to Coal & Allied.

Your Board believes this change was a logical step to the successful sharing of best practise with Rio Tinto's Queensland operations, which had already occurred in areas such as health, safety, environment and some international export marketing services, with benefits flowing to both businesses.

Throughout 2003 and again under the new management, the company remains focussed on safety performance across all operations.

Although there was a small overall increase in the lost time injury frequency rate compared with 2002, I am pleased to say that there was a decrease in the severity of these injuries.

A continued focus on halving the number of injuries year to year is required to reach Coal & Allied's goal of zero injuries.

In 2003, Coal & Allied again featured in the NSW Minerals Council Innovation Awards. Several areas of the business also achieved extended injury free periods, further illustrating that zero injuries is a realistic goal.

Turning now to our mining operations, where production in 2003 was down due to market conditions and other operational issues:

***Hunter Valley Operations (Coal & Allied 100 per cent)***

Saleable production of 12 million tonnes was 600,000 tonnes lower than in 2002.

An Environmental Impact Statement was lodged with the New South Wales Department of Infrastructure Planning and Natural Resources in October to extend the West Pit, consolidate and simplify a complicated system of consent approvals and provide greater flexibility for processing coal. This will fully integrate the extension of the West Pit into existing operations, maximise resource recovery and ensure best practice environmental controls and management. Governmental approval of this project is expected in the first half of 2004.

***Mount Thorley Warkworth Operations***

The integration of Mount Thorley Operations and Warkworth Mining is critical to the overall success of the operations and will result in substantial benefits through improved efficiencies and flexibility. Significant progress was made towards integration and a fully integrated structure will become effective in 2004.

The progress towards integration included the following steps:

- New development consent granted for extension of Warkworth mine;
- State Government approval for transfer of coal between sites;
- State Government approval for construction of shared facilities and infrastructure;
- Construction of heavy haul bridge over the Putty Road to link the two sites;
- Mount Thorley and Warkworth Mining employees agreeing to a single Collective Agreement; and
- The joint venture partners of Mount Thorley Operations and Warkworth Mining agreed to an operational integration of the two mines

***Mount Thorley Operations (Coal & Allied 80 per cent)***

Saleable production of 3.2 million tonnes was 1.1 million tonnes lower than in 2002. The lost time injury frequency rate was slightly up on 2002 figures to 1.14 (per 200,000 hours), signalling a need to re-focus safety efforts for 2004. Mount Thorley Operations consistently demonstrated that safety improvement can be maintained and was again recognised in the NSW Minerals Council Innovation Awards.

***Warkworth (Coal & Allied 55.57 per cent)***

Saleable production of 5.9 million tonnes was one million tonnes lower than in 2002.

A consistent concentration on safety at this mine will be necessary to regain the safety improvements achieved to 2002. In 2003, the lost time injury frequency rate (per 200,000 hours) rose to 2.1 from 1.2 in 2002.

***Bengalla (Coal & Allied 40 per cent)***

The low cost of the operation enabled saleable production to increase to 6.2 million tonnes as the mine reached its annual consent limit. This was an 800,000 tonne increase from 2002.

Bengalla achieved its safety performance target, successfully reducing the lost time injury frequency rate by 50 per cent to 0.9 (per 200,000 hours).

***Mount Pleasant Development (Coal & Allied 100 per cent)***

Market conditions have affected the timing of the Mount Pleasant development, as has the New South Wales government's 50 per cent royalty increase, which I will talk more about later. Possible integration with Bengalla is one option being considered for Mount Pleasant's development; alternatively we might target a smaller operation, which could stand alone within largely existing Government development consents.

**Employee involvement**

The involvement of Coal & Allied employees in all aspects of the business was critical in 2003, as people were encouraged to find ways to work smarter, improve efficiencies, deliver sustainable cost savings and improve safety performance.

Further stability will be provided over the next three years with a new enterprise agreement for Hunter Valley Operations and a new common enterprise agreement for the integrated Mount Thorley Warkworth Operations being certified in December 2003. These agreements were achieved after many months of discussions and without any industrial action.

**Our environmental responsibilities and sustainable development**

In 2003, a common Coal & Allied Environmental Management System was implemented and accredited to the international standard ISO14001. The system is a rigorous, disciplined approach to environmental management that covers all Coal & Allied managed operations. This was a significant achievement for Coal & Allied and enabled the whole business to actively protect and care for the environment in all stages of mining through the efficient and responsible use of resources.

Important progress was also made in managing water across Coal & Allied's Hunter Valley Operations and Mount Thorley Warkworth Operations. A pipeline was commissioned to maximise the utilisation of surplus mine water between the operations. This improvement of transfer capacity also reduced the need to draw water from the Hunter River.

**Involving our community**

In a year that required significant internal focus on issues affecting the business, Coal & Allied continued to work towards building and maintaining long-term relationships with the community and key stakeholders. Keeping the community informed on business developments and encouraging open and two way communication and feedback were priorities in 2003.

Community consultation was conducted through open days, community newsletters, community business briefings and near neighbour initiatives.

Throughout 2003, employee involvement was encouraged in Coal & Allied's continuing commitment to its community relations programs including Partnerships, Donations and Sponsorships, Aboriginal Development Consultative Committee and the Community Trust.

### **Market conditions**

Global spot thermal coal prices firmed sharply late in 2003. This was as a result of a combination of a range of factors including:

- The rapid appreciation of the Australian dollar against the US dollar, which demanded higher spot prices to maintain returns in local currency.
- A very hot summer in Europe led to increased coal fired power generation and, consequently, higher demand for coal.
- The longer than expected shutdown of Japan's nuclear power stations over most of the summer period, offset to some degree by mild climatic conditions.
- The instability in export coal supply from China, due to mine closures for safety reasons and diversion of export coal to its booming domestic market, caused overseas buyers to look to alternate suppliers

Long vessel queues at the Port of Newcastle during 2003 resulted in demurrage costs increasing to around US\$1 per tonne. Despite record shipments from Newcastle, fluctuations in the rate of arrival of vessels and capacity constraints in the Hunter Valley rail system were the primary contributors to high demurrage costs. Like all producers in the region, we are blighted in the Hunter Valley by the consequence of the failings of successive governments to invest adequately in rail infrastructure. In a year when the seaborne traded coal industry is enjoying rare high prices, the Hunter Valley producers are constrained from full participation by a choked infrastructure.

As a major producer, Coal & Allied supports the capacity allocation system, which is now being implemented through Port Waratah Coal Services. This follows the grant of approval by the ACCC, this month, for the system to run until the end of this year. We believe the capacity allocation system is the fairest way of sharing the capacity of the coal chain, while reducing the cost of demurrage being borne by all Hunter Valley coal exporters. Further increments in system capacity have been won by close collaboration between stakeholders in the system, but alleviation of today's constraint on export capacity will come only with Government investment in rail infrastructure.

### **Current conditions and outlook for the remainder of 2004:**

The increase in US\$-denominated spot prices from early 2003 until the close of the year was extraordinary. Last year began with an apparent oversupply in Pacific markets as Chinese and Indonesian coal exports continued to surge. By the end of the year, real shortages were becoming apparent resulting in spot prices rising rapidly. Strong demand for thermal coal in the Pacific is expected to continue in 2004 and, while Indonesian exports are growing strongly, Chinese exports for 2004 are down on the same period for 2003.

Recent publicly announced settlements for long term contracts in Japan have also reflected current market conditions with prices increasing from last years low levels; however, for Australian producers some of this gain has been offset by a strong Australian dollar.

As previously advised, our selling price is locked in for most of the first half of this year based on 2003 settlement levels. Real gains from the current strong market prices will not flow through until the third quarter. Consequently, the poor financial results suffered in the second half of 2003 are continuing. In the second half of this year, Coal & Allied will be able to take advantage of the higher prices now prevailing and will return to profitable trading.

A new development is the recently announced change in the method for calculation of royalty payable to the New South Wales Government. While full details are yet to be released, early indications are that we will be hit hard. This new royalty impost will be a

further impediment to the cost competitiveness of the New South Wales coal industry. It already sits at a disadvantage to Queensland and other producing regions by virtue of our longest distance to key markets. The higher royalty will ultimately render marginal mines unprofitable and hurt rural and regional New South Wales where the mines are located.

Comparisons with the royalty regime in Queensland are unhelpful since Queensland mines on average produce coal at lower cost, enjoy the substantial price premium of coking coal over the steaming coal generally produced in New South Wales, and are placed closer to key Asian customers for whom the freight component of final delivered cost is less. Based on projections of current coal prices into 2004/05, the seven per cent royalty figure taxed by the New South Wales Government translates to a rise in the royalty rate for our company of 45 per cent. We have cautioned the Government that it will err if it factors a sustainable benefit of this new royalty regime into its forward estimates because the higher unit rate will ultimately result in fewer tonnes being exported with all the risks to employment and regional economic contribution this entails

We are not opposed to a royalty regime that is structured on the principle that higher coal prices enjoyed by coal producers should translate into a higher royalty payment to the State. However, we contest that a regime that would have imposed an additional \$11 million of royalty, or about a 25 per cent increase, on Coal & Allied in 2003 when the industry saw some of the lowest realised prices in A\$ terms ever, has been set at much too high a rate. With other producers, we will continue to make strong representations to the New South Wales government on this issue.

At the time of the proposed royalty rate implementation, the second half of the year, we expect significant turnaround as we begin to take advantage of the price increases.

The new management team of RTCA is fully committed to not only realizing the cost savings from the implementation of the new merged management structure, but also to apply insights gained from their broader coal industry experience. One stark comparison is the cost of business generally applying to mines in New South Wales compared with Queensland. The best interests of New South Wales as well as shareholders in the coal industry will only be served properly by addressing squarely the cost elements in which New South Wales is uncompetitive. Only then we will be confident of the sustainability of the New South Wales operations through all phases of the coal price cycle.

For further information, please contact:

## **LONDON**

### **Media Relations**

Lisa Cullimore  
Office: +44 (0) 20 7753 2305  
Mobile: +44 (0) 7730 418 385

### **Investor Relations**

Peter Cunningham  
Office: +44 (0) 20 7753 2401  
Mobile: +44 (0) 7711 596 570  
Richard Brimelow  
Office: +44 (0) 20 7753 2326  
Mobile: +44 (0) 7753 783 825  
Website: [www.riotinto.com](http://www.riotinto.com)

## **AUSTRALIA**

### **Media Relations**

Ian Head  
Office: +61 (0) 3 9283 3620  
Mobile: +61 (0) 408 360 101

### **Investor Relations**

Dave Skinner  
Office: +61 (0) 3 9283 3628  
Mobile: +61 (0) 408 335 309  
Susie Creswell  
Office: +61 (0) 3 9283 3639  
Mobile: +61 (0) 418 933 792