



*Managed by Rio Tinto Coal Australia*

**Coal & Allied Industries Limited**

ABN 67 008 416 760

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Dear Shareholder

I have pleasure in inviting you to attend our Annual General Meeting and General Meeting for holders of preference shares and have enclosed the Notices of Meeting which set out the items of business for each meeting. The meetings will be held at the **Sofitel Wentworth, 61–101 Phillip Street, Sydney NSW 2000 at 11:00am on Friday, 16 April 2010.**

If you are attending these meetings, please bring this letter with you to facilitate registration into the meetings.

If you are unable to attend the meetings, you are encouraged to complete the enclosed proxy form. The proxy form should be returned in the envelope provided or faxed to our share registry on 61 3 9473 2555 so that it is received by **11:00am (Sydney time) on Wednesday, 14 April 2010.**

Corporate shareholders will be required to complete a certificate of appointment of representative to enable a person to attend on their behalf. A form of this certificate may be obtained from the Company's share registry.

I look forward to your attendance at the meetings.

Yours sincerely

A handwritten signature in black ink, appearing to read "C J S Renwick".

**C J S Renwick**  
Chairman

# Notice of Annual General Meeting

## Friday 16 April 2010

### **Coal & Allied Industries Limited ACN 008 416 760 / ABN 67 008 416 760**

Notice is hereby given that the Annual General Meeting of the shareholders of Coal & Allied Industries Limited ABN 67 008 416 760 (the "Company") will be held as follows:

DATE: 16 April 2010

TIME: 11:00am

PLACE: Sofitel Wentworth, 61–101 Phillip Street, Sydney NSW 2000

This Notice of Annual General Meeting should be read in conjunction with the accompanying Explanatory Notes. A proxy form accompanies this Notice of Annual General Meeting.

Capitalised terms used in this Notice of Annual General Meeting have the same meaning as they are defined to have in the accompanying Explanatory Notes.

#### **ORDINARY BUSINESS:**

1. To receive and consider the Financial Report, Directors' Report and Auditor's Report for the year ended 31 December 2009 as set out in the Annual Report.
2. To elect Directors:

Mr C Renwick retires in accordance with Section 71(a) of the Company's Constitution and, being eligible, offers himself for re-election.

3. To approve the Remuneration Report for the year ended 31 December 2009.

#### **SPECIAL BUSINESS:**

4. To consider and if thought fit, pass the following resolution as a special resolution:

"That for the purposes of section 256C(2) of the *Corporations Act 2001*, approval be given for the cancellation and extinguishment of 1,857,180 preference shares issued in the capital of the Company (the "Preference Shares"), being all the preference shares issued by the Company at the date of this Notice of Meeting, in consideration for the payment by the Company to each person who is registered as a holder of a Preference Share on the Record Date of the sum of \$1.50 cash for that Preference Share, such payment being more particularly described in the accompanying Explanatory Notes and aggregating approximately \$2,785,770 for all the Preference Shares."

#### **Voting exclusion statement**

A voting exclusion operates in relation to this resolution. Any Preference Shareholder, or Ordinary Shareholder who is also a Preference Shareholder (and therefore will receive consideration as part of the Proposal), or an associate of such a person, is not entitled to vote in favour of this resolution. However, such a person is entitled to vote against this resolution.

The Company will not however disregard any votes cast by such a person as proxy or nominee for another person who is entitled to vote and is cast in accordance with the directions on the form appointing the proxy or the vote is cast by the person chairing the meeting as proxy who is entitled to vote, in accordance with a direction in the proxy form to vote as the proxy decides.

**OTHER BUSINESS:**

To deal with any other business that may be brought forward in accordance with the Constitution and the *Corporations Act 2001*.

Dated 12 March 2010

By order of the Board

A handwritten signature in black ink, appearing to read 'R O'Toole', written in a cursive style.

**R O'Toole**  
Company Secretary

**NOTES****Voting entitlements**

The Board has determined, in accordance with the Company's Constitution and the *Corporations Act 2001*, that a shareholder's voting entitlement at the meeting will be taken to be the entitlement of that person shown in the register of members as at 7.00pm (Sydney time) on Wednesday 14 April 2010.

**Proxies**

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to cast two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise. The Proxy Form must be deposited at the share registry of the Company, Computershare Investor Services Pty Limited, located at GPO Box 242, Melbourne Victoria 3001 or by facsimile to Computershare on 61 3 9473 2555 or to the Company on 61 7 3361 4114 no later than 11.00am (Sydney time) on Wednesday 14 April 2010.

## Explanatory Notes

The following notes explain the items of business to be discussed at the Coal & Allied Industries Limited 2010 Annual General Meeting.

### ITEM 1: FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2009 are set out in the Company's 2009 Annual Report. In accordance with the *Corporations Act 2001*, shareholders will be given a reasonable opportunity at the 2010 Annual General Meeting to ask questions and make comments on the financial statements and reports, and on the business, operations and management of the Company. During discussion of this item, the Company's auditor will be present and will answer qualifying questions.

### ITEM 2: ELECTION OF DIRECTORS

The ASX Listing Rules and Section 71(a) of the Company's Constitution require that a Director who has held office for 3 years or, if none have, the longest standing Director, retire from office at any Annual General Meeting. Pursuant to Section 71(b) of the Company's Constitution a retiring Director is eligible to offer himself for re-election. Having held office since the 2007 Annual General Meeting Mr Renwick has held office for 3 years and, pursuant to Section 71(a) of the Company's Constitution retires and being eligible, offers himself for re-election at the 2010 Annual General Meeting.

Mr Renwick was first appointed as a non-executive director of the Company in 2004 and has been chairman since February 2005. He is a member of the Audit committee and the Health, Safety and Environment Committee.

Prior to his initial appointment with the Company, Mr Renwick worked with Rio Tinto for over 36 years until his retirement in 2004. He was chief executive of the Iron Ore Group and held a variety of senior commercial and general management positions within the Rio Tinto Group.

Mr Renwick's other current and recent external appointments are director of Downer EDI Limited (since 2004), director of Sims Metal Management Limited (since 2007), member of the board of Governors of Ian Clunies-Ross Foundation (since 2005), chairman of the Rio Tinto Aboriginal Fund (since 2004) and former director of Transurban Group Limited (2005 to 2009).

**The Coal & Allied Industries Limited Board (other than Mr Renwick who makes no recommendation) recommends the re-election of Mr Renwick.**

### ITEM 3: REMUNERATION REPORT

There is an opportunity for shareholders to ask questions and make comments on the remuneration report found in the 2009 Annual Report. The vote on the remuneration report is an advisory resolution only. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

**The Coal & Allied Industries Limited Board recommends that shareholders vote in favour of the remuneration report.**

### ITEM 4: CANCELLATION OF PREFERENCE SHARES

#### 1. Capital Structure of the Company

As at the date of the Notice of Meeting the Company has the following shares on issue:

- 86,584,735 Ordinary Shares, each of which is fully paid and carries one vote on a shareholder resolution; and
- 1,857,180 Preference Shares, each of which is fully paid and carries one vote on a shareholder resolution.

Accordingly, the aggregate voting interests of the Preference Shares is approximately 2.1% of the total voting interests (represented by the Preference Shares and Ordinary Shares) issued in the Company.

## 2. Background

The Company issued 1,857,180 Preference Shares during the period of 1960 to 1961. Since that time no further preference shares have been issued by the Company. The Preference Shares were originally issued as part of a funding mechanism for the Company which is no longer necessary or required.

Each Preference Share was issued for \$0.50 and is credited as fully paid.

As at the date of this Notice of Meeting there are 86 registered holders of the Preference Shares.

The Preference Shares are listed on the ASX and trade under the ASX code CNAPA. However, trading in the Preference Shares is virtually non-existent as the table below indicates.

Year	Number of Preference Shares sold on ASX	Market Price of such sales
2010	0	NA
2009	2292	\$0.925 to \$1.040
2008	42	\$0.860 to \$0.925
2007	793	\$0.890 to \$1.015
2006	2380	\$1.000

The last recorded sale of Preference Shares on the ASX, prior to the date of the Notice of Meeting, was on 26 November 2009 when 1600 Preference Shares were sold for \$1.04 each.

The terms of issue of the Preference Shares are as follows:

- holders have the right to a fixed cumulative preferential dividend at the rate of 7% p.a. on the capital from time to time paid up on the Preference Shares. The dividend right equates to 3.5 cents for each Preference Share each year;
- on a winding up of the Company, each holder has the right to be:
  - paid all arrears of preferential dividend, whether earned or declared or not, down to the commencement of the winding up; and
  - repaid the amount of capital paid up, or credited as paid up, on the Preference Share,in priority to any payment in respect of Ordinary Shares;
- each Preference Share has the same voting rights as an Ordinary Share, namely one vote per share; and
- the Preference Shares do not confer on the holders any other rights in the profits or assets of the Company.

The terms of issue of the Preference Shares do not allow for their conversion to Ordinary Shares nor are they redeemable by the Company.

As noted above, the aggregate voting rights of the Preference Shares equates to approximately 2.1% of all voting rights in the Company.

The recent history of dividend payments on the Preference Shares is set out below.

Period	Cents per preference share	Franking %	Aggregate amount (\$m)	Payment Date
31 December 2009	1.75	100	0.032	19 March 2010
30 June 2009	1.75	100	0.032	28 August 2009
31 December 2008	1.75	100	0.032	20 March 2009
30 June 2008	1.75	100	0.032	29 August 2008
31 December 2007	1.75	100	0.032	20 March 2008
30 June 2007	1.75	100	0.032	31 August 2007
31 December 2006	1.75	100	0.032	20 March 2007

As noted in the table above, the payment date for the dividend of 1.75 cents per Preference Share in respect of the 6 months ended on 31 December 2009 is 19 March 2010. This dividend payment will be made whether or not the Proposal is approved and implemented.

### 3. Key Details of the Proposal

The Proposal involves:

- (a) the cancellation and extinguishment of all the Preference Shares; and
- (b) the payment by the Company to each holder of a Preference Share on the Record Date of a cash sum of \$1.50 for each Preference Share they hold at that time. That payment consists of:
  - an amount in respect of unpaid dividend entitlements accruing on a Preference Share between 1 January 2010 to the date of cancellation of the Preference Shares (being approximately 1.18 cents per Preference Share if the Preference Shares are cancelled on 3 May 2010); and
  - the balance representing the consideration for the cancellation and extinguishment of the Preference Shares (being approximately 148.82 cents per Preference Share if the Preference Shares are cancelled on 3 May 2010).

Payments are expected to be sent to the holders of the Preference Shares **on the next Business Day following 14 days after the date that the Company notifies ASIC that all relevant shareholder approvals to implement the Proposal have been obtained.**

Further details concerning the taxation treatment of these payments is set out below in Section 11.

All holders of Preference Shares are entitled to vote on the Preference Shareholder Resolution. Section 10 sets out details of the various approvals that are required so as to enable the Proposal to be implemented.

### 4. Effect of the Proposal being implemented

If the Proposal is implemented then:

- the capital structure of the Company will be simplified as there will be only one class of share on issue, namely the Ordinary Shares;
- the administrative burden associated with maintaining share registers will be reduced; and
- the on-going costs associated with undertaking 6 monthly distributions of dividend payments on the Preference Shares, and reporting and compliance issues associated with having two classes of shares on issue, will be eliminated.

Further, as noted above, the market for trading in Preference Shares has been extremely illiquid. The Proposal provides the holders of Preference Shares with an opportunity to realise value for their Preference Shares without incurring any brokerage costs.

When the Proposal is implemented the number of voting shares on issue in the Company will reduce from 88,441,915, being the aggregate number of Preference Shares and Ordinary shares on issue each of which is entitled to one vote on a shareholders' resolution, to 86,584,735 (being the number of Ordinary Shares on issue). As a result the voting power of holders of Ordinary Shares will increase proportionately to their holding. Further information about the impact of the Proposal on the voting interests in the Company is included in Section 8.

The Proposal does not have any effect on the number of Ordinary Shares on issue.

## **5. Directors' Recommendation**

The Coal & Allied Directors' as at the date of this Notice of Meeting are:

<b>Director</b>	<b>Position</b>
Mr Chris Renwick	Chairman
Mr William Champion	Managing Director
Mr Bryan Davis	Non-executive Director
Mr Bruce Beeren	Non-executive Director
Mr Douglas Ritchie	Non-executive Director
Mr Kaoru Yamanaka	Non-executive Director

Each of Messrs Renwick, Davis, Beeren and Yamanaka, considers himself justified in making a recommendation in relation to the Proposal and each of them recommends that:

- eligible Ordinary Shareholders vote in favour of the Company Resolution; and
- eligible Preference Shareholders vote in favour of the Preference Shareholder Resolution.

In making this recommendation, each of Messrs Renwick, Davis, Beeren and Yamanaka, have taken into account that the Proposal:

- simplifies the capital structure of the Company as there will be only one class of share on issue, namely the Ordinary Shares;
- reduces the administrative burden associated with maintaining share registers;
- eliminates the on-going costs associated with undertaking 6 monthly distributions of dividend payments on the Preference Shares, and reporting and compliance issues associated with having two classes of shares on issue; and
- provides the holders of Preference Shares with an opportunity to realise value for their Preference Shares without incurring any brokerage costs.

Further, Messrs Renwick, Davis, Beeren and Yamanaka have considered the opinion of Deloitte that the Proposal is fair and reasonable to Preference Shareholders, fair and reasonable to Ordinary Shareholders and fair and reasonable to the shareholders of the Company as a whole.

Each of Messrs Ritchie and Champion are Senior Executives of Rio Tinto and remunerated by Rio Tinto. As a consequence of their employment with Rio Tinto and the fact that Rio Tinto will participate in the return of capital as a Preference Shareholder if it proceeds, each of Messrs Ritchie and Champion does not consider himself justified in making a recommendation in respect of the Proposal and accordingly neither of them makes any recommendation in relation to the Proposal.

## **6. Independent Expert Report**

The Board has obtained an Independent Expert Report from Deloitte Corporate Finance Pty Limited ("Deloitte"). The Independent Expert Report contains an opinion that the Proposal is fair and reasonable to the holders of Preference Shares, fair and reasonable to the holders of Ordinary Shares and fair and reasonable to the shareholders of the Company as a whole.

In arriving at its conclusion, Deloitte found that:

- the advantages of the Proposal outweigh the disadvantages for Preferences Shareholders; and
- the advantages of the Proposal outweigh the disadvantages for Ordinary Shareholders.

A complete copy of the Independent Expert Report accompanies the Notice of Meeting and is available on the Company's website at [www.coalandallied.com.au](http://www.coalandallied.com.au).

Holders of Ordinary Shares and Preference Shares are encouraged to read the Independent Expert Report in full.

## 7. Timetable

The Corporations Act requires that the cancellation of the Preference Shares not to be made until 14 days after the Company lodges with ASIC the required notifications that the Resolutions have been passed. Assuming that the Resolutions are passed on 16 April 2010, the Company proposes to lodge copies of the Resolutions with ASIC on that date and to implement the Proposal on 3 May 2010.

- 16 April 2010: ASX and ASIC will be notified in the required manner of the passing of all shareholder approvals that are required to implement the Proposal. Trading in Preference Shares on ASX will be suspended from the close of trading on this date.
- 23 April 2010: This will be the Record Date being the date for determining entitlements of holders of Preference Shares to participate in the Proposal. Any transfers or transmissions of Preference Shares which are received after the Record Date, whether in respect of off market transactions or transactions that are implemented on CHESS, will not be recognised.

Only holders of Preference Shares at the Record Date are entitled to participate in the Proposal and receive payments for the Preference Shares that are registered in their names on the Record Date.

The dates are indicative only and may change. Any such change to the proposed timetable will be announced to ASX and notified on the Company's website at [www.coalandallied.com.au](http://www.coalandallied.com.au).

If the Resolutions are approved on 16 April 2010, the Company will request ASX to suspend trading in Preference Shares on ASX from the close of trading on 16 April 2010. If, in the unlikely circumstances, a step is successfully initiated after 16 April 2010 that prevents the Company from implementing the Proposal on 3 May 2010 the Company will seek the reinstatement of trading of the Preference Shares on ASX.

Holders of Preference Shares who have an existing direct credit authority for the payment of dividends on their Preference Shares recorded with the Registry on the Record Date, will have the payments to which they become entitled in accordance with the Proposal credited to their nominated bank account.

Cheques and direct credit advices will be sent by mail to the holders of Preference Shares to the address as it is shown on Register on the Record Date.

## 8. What is the effect on voting shares in the Company?

Both the Ordinary Shares and the Preference Shares are voting shares, each entitling the holder to one vote on a shareholders' resolution.

As noted in Section 4, when the Proposal is implemented the number of voting shares on issue in the Company will be reduced with the consequence that the voting power of the holders of Ordinary Shares will increase proportionately, in line with their holding of Ordinary Shares.

The table below provides the following details:

- the holders of Ordinary Shares who, as at the date of these Explanatory Notes, have lodged a notice of substantial holding with the Company (the Substantial Holders) and their holding of Ordinary Shares and Preference Shares;
- the percentage of voting shares that the Substantial Holder has at the date of these Explanatory Notes; and
- the percentage of voting shares of the Substantial Holder that will result from the Proposal being implemented.

The information contained in the table below is based on publicly available information as at the date of these Explanatory Notes and it assumes that the Substantial Holder does not acquire or dispose of any Preference Shares or Ordinary Shares before the date when the Proposal is implemented.



Name of Substantial Holder	Number of Ordinary Shares held	Number of Preference Shares held	Voting Shares of holder at date of Notice of Meeting (%)	Voting Shares of holder when Proposal is implemented (%)
Australian Coal Holdings Pty Ltd	65,555,831	928,590	75.17	75.71
Mitsubishi Development Pty Ltd	8,829,288	Nil	9.98	10.20
Perpetual Limited	6,336,932	Nil	7.17	7.32

## 9. Financial implications of the Return of Capital

The aggregate amount to be provided by the Company, by way of consideration under the Proposal is approximately \$2,785,770 and it will be paid from the Company's existing cash reserves.

The Company's cash reserves are in excess of \$347 million as at 31 December 2009. In the Board's opinion implementing the Proposal will not materially prejudice the Company's ability to pay its creditors.

## 10. Approvals required to implement the Return of Capital

In order for the Proposal to be implemented, the Corporations Act requires the following approvals:

1. The Preference Shareholder Resolution must be passed as a special resolution, being a resolution that has been passed by at least 75% of the votes cast on the resolution by the holders of Preference Shares who vote on the Preference Shareholder Resolution. The Preference Shareholder Resolution is the only resolution to be considered at the meeting of holders of Preference Shares which is to be held after the Annual General Meeting on 16 April 2010. All holders of Preference Shares are entitled to vote on the Preference Shareholder Resolution but holders of Ordinary Shares are not entitled to vote on that resolution nor are they entitled to attend the meeting of holders of Preference Shares, unless they also hold Preference Shares.
2. A special resolution passed at a general meeting of the Company with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction, or by their associates. This resolution is referred to as the Company Resolution. The Company Resolution is resolution number 4 to be considered at the 2010 Annual General Meeting of the Company. A voting exclusion operates in relation to the Company Resolution. As noted above, any Preference Shareholder or Ordinary Shareholder who is also a Preference Shareholder (and therefore will receive consideration as part of the Proposal) is not entitled to vote in favour of the Company Resolution, nor is any associate of such a person. However, such a person is entitled to vote against the Company Resolution.

Given that Rio Tinto (through its wholly owned subsidiary, Australian Coal Holdings Pty Limited) holds both Ordinary Shares and Preference Shares, Rio Tinto and its associates cannot vote in favour of the Company Resolution at the Annual General Meeting (although it is entitled to vote on the Preference Shareholder Resolution at the meeting of Holders of Preference Shares which is to be held immediately following the conclusion of the 2010 Annual General Meeting on 16 April 2010).

If any of the approvals set out above is not obtained, then the Proposal will not be implemented, the Preference Shares will not be cancelled and the Preference Shareholders will not receive \$1.50 for each Preference Share held. In that event, the Preference Shares will remain quoted on ASX and future dividend payments will be made in accordance with the entitlement of the Preference Shares.

The Corporations Act provides that the Company may reduce its share capital (in the manner contemplated by the Proposal) if the reduction:

- (a) is fair and reasonable to shareholders as a whole;
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders under section 256C of the Corporations Act.

In relation to these requirements:

- (a) the Board considers that the Proposal is fair and reasonable to shareholders as a whole for reasons including those set out or referred to in Sections 4 and 5 and because the Proposal provides equal treatment for all holders of Preference Shares;
- (b) the Board considers that the Proposal will not materially prejudice the Company's ability to pay its creditors given that the Company will have cash reserves materially in excess of its liabilities after the Proposal has been implemented; and
- (c) the shareholder approvals required by the Corporations Act will be obtained before that Proposal is implemented.

In accordance with section 256C of the Corporations Act, a copy of the Notice of Annual General Meeting and a copy of the Notice of Meeting of holders of Preference Shares have been lodged with the ASIC.

### **11. Taxation impact of Proposal**

The Company has sought a Class Ruling from the ATO as to the tax implications of the Proposal for the holders of Preference Shares. The final Class Ruling is expected to be received within a short period of time after the cancellation occurs. However, for specific advice, holders of Preference Shares should consult their own taxation adviser so that their particular circumstances are taken into consideration.

Specifically, for Australian residents holding preference shares acquired after 19 September 1985 and on capital account for taxation purposes, the Class Ruling application requests confirmation that, of the amount of \$1.50 that will be paid by the Company for each Preference Share when the proposal is approved and implemented, \$1.00 per Preference Share will be a fully franked dividend and will be included in their assessable income.

A Preference Shareholder will make a capital gain if the capital proceeds for the cancellation, \$1.50 per Preference Share, less the amount of the dividend, \$1.00 per Preference Share, exceed the cost base of the share. A Preference Shareholder will make a capital loss if the capital proceeds, \$1.50 per Preference Share, are less than the reduced cost base of the Preference Share.

On the basis of this being confirmed by the ATO:

- (a) A capital gain may qualify as a discount capital gain depending on the nature of the holder and whether that holder has held the Preference Share for at least 12 months before receiving the payment.
- (b) For qualifying persons, the dividend component of the Proposal will be a fully franked dividend for taxation purposes. A Preference Shareholder will generally be a qualifying person if they have held the relevant shares at risk for a period of at least 90 days before the date of cancellation (not including the day the Preference Shares were acquired or disposed).

### **12. Director shareholdings**

No member of the Board holds any Ordinary Shares or Preference Shares as at the date of these Explanatory Notes.

No member of the Board will receive any payment or benefit of any kind as a consequence of the Proposal being implemented other than a payment or benefit as the holder of Preference Shares or of Ordinary Shares in common with all other shareholders.

### **13. Other material information**

There is no other information material to the making of a decision by Shareholders whether or not to vote in favour of the various resolutions to approve the Proposal (being information that is known to the Board and has not previously been disclosed) other than as set out or referred to in these Explanatory Notes and accompanying material.

**Important Note: The Chairman of the meeting intends to vote undirected proxies in favour of each item of business, where permitted to do so by the relevant proxy or nominee form.**

## **Definitions**

**\$ or cents** means Australian currency unless otherwise specified.

**Annual General Meeting** means the 2010 annual general meeting of the Company.

**ASX** means ASX Limited ABN 98 008 624 691.

**ATO** means Australian Taxation Office.

**Board** means the board of directors of the Company.

**Business Day** means a day on which banks are open for business excluding Saturdays, Sundays and public holidays in Sydney.

**Company** means Coal & Allied Industries Limited ABN 67 008 416 670.

**Company Resolution** means resolution number 4 (including any amendments thereof) set out in the Notice of Annual General Meeting of the Company dated 12 March 2010.

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

**Directors** means the directors of the Company.

**Listing Rules** means the Official Listing Rules of the ASX.

**Notice of Annual General Meeting** means the notice of meeting and explanatory notes issued by the Company in relation to the Annual General Meeting.

**Notice of Meeting** means the notices of meeting and explanatory notes issued by the Company in relation to the Proposal.

**Ordinary Shareholder** means a holder of Ordinary Shares in the Company.

**Ordinary Shares** means fully paid ordinary shares issued in the capital of the Company.

**Preference Shareholder** means a holder of Preference Shares in the Company.

**Preference Shares** means fully paid preference shares issued in the capital of the Company.

**Preference Shareholder Resolution** means the resolution set out in the Notice of Meeting of the holders of Preference Shares dated 12 March 2010.

**Proposal** means the cancellation and extinguishment of the Preference Shares as described in Section 3 in the Explanatory Notes and any amendment thereof.

**Record Date** means 7.00pm Sydney time on 23 April 2010 or such other date as determined by the Board and notified by public announcement to the ASX.

**Register** means the register of holders of Preference Shares maintained by the Registry.

**Registry** means Computershare Investor Services Pty Limited, located at GPO Box 242, Melbourne Victoria 3001, telephone 1300 850 505 facsimile 61 3 9473 2555.

**Resolutions** means the Company Resolution and the Preference Shareholder Resolution.

**Shareholder** means a holder of Ordinary Shares or Preference Shares in the Company.

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## Notice of Meeting – Holders of Preference Shares

Friday 16 April 2010

### **Coal & Allied Industries Limited ACN 008 416 760 / ABN 67 008 416 760**

Notice is hereby given that a general meeting of the holders of Preference Shares issued by Coal & Allied Industries Limited ABN 67 008 416 760 (the "Company") will be held as follows:

DATE: 16 April 2010

TIME: Immediately following the conclusion of the Annual General Meeting which has been convened to commence at 11.00am.

PLACE: Sofitel Wentworth, 61–101 Phillip Street, Sydney NSW 2000

#### **BUSINESS:**

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That for the purposes of section 256C(2) of the *Corporations Act 2001*, approval be given for the cancellation and extinguishment of 1,857,180 preference shares issued in the capital of the Company (the "Preference Shares"), being all the preference shares issued by the Company at the date of this Notice of Meeting, in consideration for the payment by the Company to each person who is registered as a holder of a Preference Share on the Record Date of the sum of \$1.50 cash for that Preference Share, such payment being more particularly described in the accompanying Explanatory Notes and aggregating approximately \$2,785,770 for all the Preference Shares."

Note: All Preference Shares in the Company as at 7.00pm (Sydney time) on Wednesday, 14 April 2010 are taken, for the purposes of the meeting, to be held by the persons who held those securities at that time.

Dated 12 March 2010

By order of the Board



R O'Toole  
Company Secretary

#### **NOTES**

##### **Voting entitlements**

The Board has determined, in accordance with the Company's Constitution and the *Corporations Act 2001*, that a shareholder's voting entitlement at the meeting will be taken to be the entitlement of that person shown in the register of members as at 7.00pm (Sydney time) on Wednesday 14 April 2010.

##### **Proxies**

A shareholder has the right to appoint a proxy, who need not be a shareholder of the Company. If a shareholder is entitled to cast two or more votes they may appoint two proxies and may specify the percentage of votes each proxy is appointed to exercise. The Proxy Form must be deposited at the share registry of the Company, Computershare Investor Services Pty Limited, located at GPO Box 242, Melbourne Victoria 3001 or by facsimile to Computershare on 61 3 9473 2555 or to the Company on 61 7 3361 4114 no later than 11.00am (Sydney time) on Wednesday 14 April 2010.

## Explanatory Notes

The following notes explain the item of business to be discussed at the general meeting of the holders of Preference Shares in Coal & Allied Industries Limited.

### CANCELLATION OF PREFERENCE SHARES

#### 1. Capital Structure of the Company

As at the date of this Notice of Meeting the Company has the following shares on issue:

- 86,584,735 Ordinary Shares, each of which is fully paid and carries one vote on a shareholder resolution; and
- 1,857,180 Preference Shares, each of which is fully paid and carries one vote on a shareholder resolution.

Accordingly, the aggregate voting interests of the Preference Shares is approximately 2.1% of the total voting interests (represented by the Preference Shares and Ordinary Shares) issued in the Company.

#### 2. Background

The Company issued 1,857,180 Preference Shares during the period of 1960 to 1961. Since that time no further preference shares have been issued by the Company. The Preference Shares were originally issued as part of a funding mechanism for the Company which is no longer necessary or required.

Each Preference Share was issued for \$0.50 and is credited as fully paid.

As at the date of this Notice of Meeting there are 86 registered holders of the Preference Shares.

The Preference Shares are listed on the ASX and trade under the ASX code CNAPA. However, trading in the Preference Shares is virtually non-existent as the table below indicates.

Year	Number of Preference Shares sold on ASX	Market Price of such sales
2010	0	NA
2009	2292	\$0.925 to \$1.040
2008	42	\$0.860 to \$0.925
2007	793	\$0.890 to \$1.015
2006	2380	\$1.000

The last recorded sale of Preference Shares on the ASX, prior to the date of the Notice of Meeting, was on 26 November 2009 when 1600 Preference Shares were sold for \$1.04 each.

The terms of issue of the Preference Shares are as follows:

- holders have the right to a fixed cumulative preferential dividend at the rate of 7% p.a. on the capital from time to time paid up on the Preference Shares. The dividend right equates to 3.5 cents for each Preference Share each year;
- on a winding up of the Company, each holder has the right to be:
  - paid all arrears of preferential dividend, whether earned or declared or not, down to the commencement of the winding up; and
  - repaid the amount of capital paid up, or credited as paid up, on the Preference Share,in priority to any payment in respect of Ordinary Shares;
- each Preference Share has the same voting rights as an Ordinary Share, namely one vote per share; and
- the Preference Shares do not confer on the holders any other rights in the profits or assets of the Company.

The terms of issue of the Preference Shares do not allow for their conversion to Ordinary Shares nor are they redeemable by the Company.

As noted above, the aggregate voting rights of the Preference Shares equates to approximately 2.1% of all voting rights in the Company.

The recent history of dividend payments on the Preference Shares is set out below.

Period	Cents per preference share	Franking %	Aggregate amount (\$m)	Payment Date
31 December 2009	1.75	100	0.032	19 March 2010
30 June 2009	1.75	100	0.032	28 August 2009
31 December 2008	1.75	100	0.032	20 March 2009
30 June 2008	1.75	100	0.032	29 August 2008
31 December 2007	1.75	100	0.032	20 March 2008
30 June 2007	1.75	100	0.032	31 August 2007
31 December 2006	1.75	100	0.032	20 March 2007

As noted in the table above, the payment date for the dividend of 1.75 cents per Preference Share in respect of the 6 months ended on 31 December 2009 is 19 March 2010. This dividend payment will be made whether or not the Proposal is approved and implemented.

### 3. Key Details of the Proposal

The Proposal involves:

- (a) the cancellation and extinguishment of all the Preference Shares; and
- (b) the payment by the Company to each holder of a Preference Share on the Record Date of a cash sum of \$1.50 for each Preference Share they hold at that time. That payment consists of:
  - an amount in respect of unpaid dividend entitlements accruing on a Preference Share between 1 January 2010 to the date of cancellation of the Preference Shares (being approximately 1.18 cents per Preference Share if the Preference Shares are cancelled on 3 May 2010); and
  - the balance representing the consideration for the cancellation and extinguishment of the Preference Shares (being approximately 148.82 cents per Preference Share if the Preference Shares are cancelled on 3 May 2010).

Payments are expected to be sent to the holders of the Preference Shares **on the next Business Day following 14 days after the date that the Company notifies ASIC that all relevant shareholder approvals to implement the Proposal have been obtained.**

Further details concerning the taxation treatment of these payments is set out below in Section 11.

All holders of Preference Shares are entitled to vote on the Preference Shareholder Resolution. Section 10 sets out details of the various approvals that are required so as to enable the Proposal to be implemented.

### 4. Effect of the Proposal being implemented

If the Proposal is implemented then:

- the capital structure of the Company will be simplified as there will be only one class of share on issue, namely the Ordinary Shares;
- the administrative burden associated with maintaining share registers will be reduced; and
- the on-going costs associated with undertaking 6 monthly distributions of dividend payments on the Preference Shares, and reporting and compliance issues associated with having two classes of shares on issue, will be eliminated.



Further, as noted above, the market for trading in Preference Shares has been extremely illiquid. The Proposal provides the holders of Preference Shares with an opportunity to realise value for their Preference Shares without incurring any brokerage costs.

When the Proposal is implemented the number of voting shares on issue in the Company will reduce from 88,441,915, being the aggregate number of Preference Shares and Ordinary shares on issue each of which is entitled to one vote on a shareholders' resolution, to 86,584,735 (being the number of Ordinary Shares on issue). As a result the voting power of holders of Ordinary Shares will increase proportionately to their holding. Further information about the impact of the Proposal on the voting interests in the Company is included in Section 8.

The Proposal does not have any effect on the number of Ordinary Shares on issue.

## **5. Directors' Recommendation**

The Coal & Allied Directors' as at the date of this Notice of Meeting are:

<b>Director</b>	<b>Position</b>
Mr Chris Renwick	Chairman
Mr William Champion	Managing Director
Mr Bryan Davis	Non-executive Director
Mr Bruce Beeren	Non-executive Director
Mr Douglas Ritchie	Non-executive Director
Mr Kaoru Yamanaka	Non-executive Director

Each of Messrs Renwick, Davis, Beeren and Yamanaka, considers himself justified in making a recommendation in relation to the Proposal and each of them recommends that:

- eligible Ordinary Shareholders vote in favour of the Company Resolution; and
- eligible Preference Shareholders vote in favour of the Preference Shareholder Resolution.

In making this recommendation, each of Messrs Renwick, Davis, Beeren and Yamanaka, have taken into account that the Proposal:

- simplifies the capital structure of the Company as there will be only one class of share on issue, namely the Ordinary Shares;
- reduces the administrative burden associated with maintaining share registers;
- eliminates the on-going costs associated with undertaking 6 monthly distributions of dividend payments on the Preference Shares, and reporting and compliance issues associated with having two classes of shares on issue; and
- provides the holders of Preference Shares with an opportunity to realise value for their Preference Shares without incurring any brokerage costs.

Further, Messrs Renwick, Davis, Beeren and Yamanaka have considered the opinion of Deloitte that the Proposal is fair and reasonable to Preference Shareholders, fair and reasonable to Ordinary Shareholders and fair and reasonable to the shareholders of the Company as a whole.

Each of Messrs Ritchie and Champion are Senior Executives of Rio Tinto and remunerated by Rio Tinto. As a consequence of their employment with Rio Tinto and the fact that Rio Tinto will participate in the return of capital as a Preference Shareholder if it proceeds, each of Messrs Ritchie and Champion does not consider himself justified in making a recommendation in respect of the Proposal and accordingly neither of them makes any recommendation in relation to the Proposal.

## **6. Independent Expert Report**

The Board has obtained an Independent Expert Report from Deloitte Corporate Finance Pty Limited ("Deloitte"). The Independent Expert Report contains an opinion that the Proposal is fair and reasonable to the holders of Preference Shares, fair and reasonable to the holders of Ordinary Shares and fair and reasonable to the shareholders of the Company as a whole.

In arriving at its conclusion, Deloitte found that:

- the advantages of the Proposal outweigh the disadvantages for Preferences Shareholders; and
- the advantages of the Proposal outweigh the disadvantages for Ordinary Shareholders.

A complete copy of the Independent Expert Report accompanies the Notice of Meeting and is available on the Company's website at [www.coalandallied.com.au](http://www.coalandallied.com.au).

Holders of Ordinary Shares and Preference Shares are encouraged to read the Independent Expert Report in full.

## **7. Timetable**

The Corporations Act requires that the cancellation of the Preference Shares not to be made until 14 days after the Company lodges with ASIC the required notifications that the Resolutions have been passed. Assuming that the Resolutions are passed on 16 April 2010, the Company proposes to lodge copies of the Resolutions with ASIC on that date and to implement the Proposal on 3 May 2010.

- 16 April 2010: ASX and ASIC will be notified in the required manner of the passing of all shareholder approvals that are required to implement the Proposal. Trading in Preference Shares on ASX will be suspended from the close of trading on this date.
- 23 April 2010: This will be the Record Date being the date for determining entitlements of holders of Preference Shares to participate in the Proposal. Any transfers or transmissions of Preference Shares which are received after the Record Date, whether in respect of off market transactions or transactions that are implemented on CHESS, will not be recognised.

Only holders of Preference Shares at the Record Date are entitled to participate in the Proposal and receive payments for the Preference Shares that are registered in their names on the Record Date.

The dates are indicative only and may change. Any such changes to the proposed timetable will be announced to ASX and notified on the Company's website at [www.coalandallied.com.au](http://www.coalandallied.com.au).

If the Resolutions are approved on 16 April 2010, the Company will request ASX to suspend trading in Preference Shares on ASX from the close of trading on 16 April 2010. If, in the unlikely circumstances, a step is successfully initiated after 16 April 2010 that prevents the Company from implementing the Proposal on 3 May 2010 the Company will seek the reinstatement of trading of the Preference Shares on ASX.

Holders of Preference Shares who have an existing direct credit authority for the payment of dividends on their Preference Shares recorded with the Registry on the Record Date, will have the payments to which they become entitled in accordance with the Proposal credited to their nominated bank account.

Cheques and direct credit advices will be sent by mail to the holders of Preference Shares to the address as it is shown on Register on the Record Date.

## **8. What is the effect on voting shares in the Company?**

Both the Ordinary Shares and the Preference Shares are voting shares, each entitling the holder to one vote on a shareholders' resolution.

As noted in Section 4, when the Proposal is implemented the number of voting shares on issue in the Company will be reduced with the consequence that the voting power of the holders of Ordinary Shares will increase proportionately, in line with their holding of Ordinary Shares.

The table below provides the following details:

- the holders of Ordinary Shares who, as at the date of these Explanatory Notes, have lodged a notice of substantial holding with the Company (the Substantial Holders) and their holding of Ordinary Shares and Preference Shares;
- the percentage of voting shares that the Substantial Holder has at the date of these Explanatory Notes; and
- the percentage of voting shares of the Substantial Holder that will result from the Proposal being implemented.

The information contained in the table below is based on publicly available information as at the date of these Explanatory Notes and it assumes that the Substantial Holder does not acquire or dispose of any Preference Shares or Ordinary Shares before the date when the Proposal is implemented.

<b>Name of Substantial Holder</b>	<b>Number of Ordinary Shares held</b>	<b>Number of Preference Shares held</b>	<b>Voting Shares of holder at date of Notice of Meeting (%)</b>	<b>Voting Shares of holder when Proposal is implemented (%)</b>
Australian Coal Holdings Pty Ltd	65,555,831	928,590	75.17	75.71
Mitsubishi Development Pty Ltd	8,829,288	Nil	9.98	10.20
Perpetual Limited	6,336,932	Nil	7.17	7.32

## **9. Financial implications of the Return of Capital**

The aggregate amount to be provided by the Company, by way of consideration under the Proposal is approximately \$2,785,770 and it will be paid from the Company's existing cash reserves.

The Company's cash reserves are in excess of \$347 million as at 31 December 2009. In the Board's opinion implementing the Proposal will not materially prejudice the Company's ability to pay its creditors.

## **10. Approvals required to implement the Return of Capital**

In order for the Proposal to be implemented, the Corporations Act requires the following approvals:

1. The Preference Shareholder Resolution must be passed as a special resolution, being a resolution that has been passed by at least 75% of the votes cast on the resolution by the holders of Preference Shares who vote on the Preference Shareholder Resolution. The Preference Shareholder Resolution is the only resolution to be considered at the meeting of holders of Preference Shares which is to be held after the Annual General Meeting on 16 April 2010. All holders of Preference Shares are entitled to vote on the Preference Shareholder Resolution but holders of Ordinary Shares are not entitled to vote on that resolution nor are they entitled to attend the meeting of holders of Preference Shares, unless they also hold Preference Shares.
2. A special resolution passed at a general meeting of the Company with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction, or by their associates. This resolution is referred to as the Company Resolution. The Company Resolution is resolution number 4 to be considered at the 2010 Annual General Meeting of the Company. A voting exclusion operates in relation to the Company Resolution. As noted above, any Preference Shareholder or Ordinary Shareholder who is also a Preference Shareholder (and therefore will receive consideration as part of the Proposal) is not entitled to vote in favour of the Company Resolution, nor is any associate of such a person. However, such a person is entitled to vote against the Company Resolution.

Given that Rio Tinto (through its wholly owned subsidiary, Australian Coal Holdings Pty Limited) holds both Ordinary Shares and Preference Shares, Rio Tinto and its associates cannot vote in favour of the Company Resolution at the Annual General Meeting (although it is entitled to vote on the Preference Shareholder Resolution at the meeting of Holders of Preference Shares which is to be held immediately following the conclusion of the 2010 Annual General Meeting on 16 April 2010).

If any of the approvals set out above is not obtained, then the Proposal will not be implemented, the Preference Shares will not be cancelled and the Preference Shareholders will not receive \$1.50 for each Preference Share held. In that event, the Preference Shares will remain quoted on ASX and future dividend payments will be made in accordance with the entitlement of the Preference Shares.

The Corporations Act provides that the Company may reduce its share capital (in the manner contemplated by the Proposal) if the reduction:

- (a) is fair and reasonable to shareholders as a whole;

- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders under section 256C of the Corporations Act.

In relation to these requirements:

- (a) the Board considers that the Proposal is fair and reasonable to shareholders as a whole for reasons including those set out or referred to in Sections 4 and 5 and because the Proposal provides equal treatment for all holders of Preference Shares;
- (b) the Board considers that the Proposal will not materially prejudice the Company's ability to pay its creditors given that the Company will have cash reserves materially in excess of its liabilities after the Proposal has been implemented; and
- (c) the shareholder approvals required by the Corporations Act will be obtained before that Proposal is implemented.

In accordance with section 256C of the Corporations Act, a copy of the Notice of Annual General Meeting and a copy of the Notice of Meeting of holders of Preference Shares have been lodged with the ASIC.

### **11. Taxation impact of Proposal**

The Company has sought a Class Ruling from the ATO as to the tax implications of the Proposal for the holders of Preference Shares. The final Class Ruling is expected to be received within a short period of time after the cancellation occurs. However, for specific advice, holders of Preference Shares should consult their own taxation adviser so that their particular circumstances are taken into consideration.

Specifically, for Australian residents holding preference shares acquired after 19 September 1985 and on capital account for taxation purposes, the Class Ruling application requests confirmation that, of the amount of \$1.50 that will be paid by the Company for each Preference Share when the proposal is approved and implemented, \$1.00 per Preference Share will be a fully franked dividend and will be included in their assessable income.

A Preference Shareholder will make a capital gain if the capital proceeds for the cancellation, \$1.50 per Preference Share, less the amount of the dividend, \$1.00 per Preference Share, exceed the cost base of the share. A Preference Shareholder will make a capital loss if the capital proceeds, \$1.50 per Preference Share, are less than the reduced cost base of the Preference Share.

On the basis of this being confirmed by the ATO:

- (a) A capital gain may qualify as a discount capital gain depending on the nature of the holder and whether that holder has held the Preference Share for at least 12 months before receiving the payment.
- (b) For qualifying persons, the dividend component of the Proposal will be a fully franked dividend for taxation purposes. A Preference Shareholder will generally be a qualifying person if they have held the relevant shares at risk for a period of at least 90 days before the date of cancellation (not including the day the Preference Shares were acquired or disposed).

### **12. Director shareholdings**

No member of the Board holds any Ordinary Shares or Preference Shares as at the date of these Explanatory Notes.

No member of the Board will receive any payment or benefit of any kind as a consequence of the Proposal being implemented other than a payment or benefit as the holder of Preference Shares or of Ordinary Shares in common with all other shareholders.

### **13. Other material information**

There is no other information material to the making of a decision by Shareholders whether or not to vote in favour of the various resolutions to approve the Proposal (being information that is known to the Board and has not previously been disclosed) other than as set out or referred to in these Explanatory Notes and accompanying material.

**Important Note:** The Chairman of the meeting intends to vote undirected proxies in favour of each item of business, where permitted to do so by the relevant proxy or nominee form.

## **Definitions**

**\$ or cents** means Australian currency unless otherwise specified.

**Annual General Meeting** means the 2010 annual general meeting of the Company.

**ASX** means ASX Limited ABN 98 008 624 691.

**ATO** means Australian Taxation Office.

**Board** means the board of directors of the Company.

**Business Day** means a day on which banks are open for business excluding Saturdays, Sundays and public holidays in Sydney.

**Company** means Coal & Allied Industries Limited ABN 67 008 416 670.

**Company Resolution** means resolution number 4 (including any amendments thereof) set out in the Notice of Annual General Meeting of the Company dated 12 March 2010.

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

**Directors** means the directors of the Company.

**Listing Rules** means the Official Listing Rules of the ASX.

**Notice of Annual General Meeting** means the notice of meeting and explanatory notes issued by the Company in relation to the Annual General Meeting.

**Notice of Meeting** means the notices of meeting and explanatory notes issued by the Company in relation to the Proposal.

**Ordinary Shareholder** means a holder of Ordinary Shares in the Company.

**Ordinary Shares** means fully paid ordinary shares issued in the capital of the Company.

**Preference Shareholder** means a holder of Preference Shares in the Company.

**Preference Shares** means fully paid preference shares issued in the capital of the Company.

**Preference Shareholder Resolution** means the resolution set out in the Notice of Meeting of the holders of Preference Shares dated 12 March 2010.

**Proposal** means the cancellation and extinguishment of the Preference Shares as described in Section 3 in the Explanatory Notes and any amendment thereof.

**Record Date** means 7.00pm Sydney time on 23 April 2010 or such other date as determined by the Board and notified by public announcement to the ASX.

**Register** means the register of holders of Preference Shares maintained by the Registry.

**Registry** means Computershare Investor Services Pty Limited, located at GPO Box 242, Melbourne Victoria 3001, telephone 1300 850 505 facsimile 61 3 9473 2555.

**Resolutions** means the Company Resolution and the Preference Shareholder Resolution.

**Shareholder** means a holder of Ordinary Shares or Preference Shares in the Company.



# **Coal & Allied Industries Limited**

## **Independent expert's report and Financial Services Guide**

**3 March 2010**



## Financial Services Guide

### What is a Financial Services Guide?

**This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.**

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

### What financial services are we licensed to provide?

We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

### Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

### How are we and all employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

### Associations and relationships

We are ultimately owned by the Deloitte member firm in Australia (Deloitte Australia). Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

We and Deloitte Australia (and other entities related to Deloitte Australia):

- do not have any formal associations or relationships with any entities that are issuers of financial products; and
- may provide professional services to issuers of financial products in the ordinary course of business.

### What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer  
PO Box N250  
Grosvenor Place  
Sydney NSW 1220  
complaints@deloitte.com.au  
Fax: +61 2 9255 8434

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
[info@fos.org.au](mailto:info@fos.org.au)  
[www.fos.org.au](http://www.fos.org.au)  
Tel: 1300 780 808  
Fax: +61 3 9613 6399

### What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

The Directors  
Coal & Allied Industries Limited  
Level 3  
410 Ann Street  
Brisbane QLD 4000

3 March 2010

Dear Directors

## **Independent expert's report**

### **Introduction**

On 1 March 2010, Coal & Allied Industries Limited (Coal & Allied) announced its intention, subject to the approval of Coal & Allied shareholders (Shareholders), to cancel all of its preference shares on issue (the Preference Shares). The cancellation of the Preference Shares will be undertaken via a proposed selective capital reduction (the Proposed Capital Reduction). We understand the Preference Shares may be cancelled in accordance with the procedure for the selective reduction of capital outlined under Part 2J.1 of the Corporations Act 2001 (Cth) (Corporations Act).

The full details of the Proposed Capital Reduction are included in the Explanatory Notes which accompanies the Notice of Annual General Meeting and the Notice of Meeting – Holders of Preference Shares (the Notices of Meeting). An overview of the Proposed Capital Reduction is provided in Section 1 of our report.

### **Purpose of the report**

Whilst an independent expert's report is not required to meet any statutory obligations, the directors of Coal & Allied (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte) prepare an independent expert's report expressing our opinion as to whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. This report has been prepared in order to assist Shareholders with the decision to vote in favour or against the Proposed Capital Reduction at either the Annual General Meeting (for holders of ordinary shares (Ordinary Shareholders) who are not also a holder of Preference Shares (Preference Shareholders)) or at the General Meeting of Preference Shareholders, which will be held immediately following the conclusion of the Annual General Meeting.

This report is to be included in the Explanatory Notes which will accompany the Notices of Meeting to be issued to Shareholders.

We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.



## **Basis of evaluation**

In preparing this report we have had regard to the Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 in relation to the content of expert's reports and Regulatory Guide 112 in respect of the independence of experts.

We have also had regard to Part 2J.1 (Section 256B) of the Corporations Act which permits a reduction in share capital not otherwise authorised by law, if the reduction:

- is fair and reasonable to the company's shareholders as a whole
- does not materially prejudice the company's ability to pay its creditors; and
- is approved by shareholders under Section 256C of the Corporations Act.

We have also had regard to common market practice in relation to independent expert's reports prepared in the context of selective capital reductions.

There is no statutory definition of the expression "fair and reasonable", and the expression has different meaning for different regulatory purposes.

Notwithstanding that ASIC Regulatory Guide 111 recommends that an independent expert's report should usually accompany the explanatory memorandum to satisfy the information requirements under Section 256C(4) of the Corporations Act, it does not provide specific guidance on how to form an opinion, or the factors to consider in forming such an opinion, in relation to a selective capital reduction which is not also a control transaction.

In the absence of specific guidance within ASIC Regulatory Guide 111, we have considered the guidance provided in relation to a sale of securities approved by securityholders under Section 611 of the Corporations Act, in which independent expert's reports may be provided to discharge the requirement to disclose all material information on how to vote on a particular resolution.

Having regard to the above, we consider it appropriate to assess whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole having regard to both the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders and the advantages and disadvantages of the Proposed Capital Reduction to Ordinary Shareholders. In arriving at our opinion, we have considered whether the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. In considering the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders, we have, amongst other things, compared the consideration being paid for the Preference Shares with our estimate of the fair market value of the Preference Shares.

## **Summary and conclusion**

On balance, in our opinion, the advantages of the Proposed Capital Reduction outweigh the disadvantages for Preference Shareholders and the advantages of the Proposed Capital Reduction outweigh the disadvantages for Ordinary Shareholders.

In arriving at our opinion, we have had regard to the following factors:

## Advantages and disadvantages of the Proposed Capital Reduction for Preference Shareholders

### *The Proposed Capital Reduction is fair to Preference Shareholders*

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a Preference Share with the consideration offered by Coal & Allied in respect of the Proposed Capital Reduction.

**Table 1: Evaluation of fairness**

	Low value \$ per share	High value \$ per share
Estimated fair market value of a Preference Share	0.54	0.58
Estimated fair market value of consideration offered by Coal & Allied	1.50	1.50

Source: Deloitte analysis

The consideration offered by Coal & Allied is above the range of our estimate of the fair market value of a Preference Share. Accordingly it is our opinion that the Proposed Capital Reduction is fair to Preference Shareholders.

The consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a premium of 159% to 178% above our estimated fair market value of a Preference Share.

Further to this, the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a yield of 2.3%. This yield is significantly below the effective yields of the comparable listed preference shares noted in Table 4.

### *The Proposed Capital Reduction is being undertaken at a significant premium*

The Proposed Capital Reduction is being undertaken at a significant premium to both our estimated fair market value and the last Australian Securities Exchange (ASX) security trading price of \$1.04 per Preference Share prior to the date of our report. The opportunity to realise a significant premium or realise immediate value for the Preference Shares may not otherwise exist through trading the Preference Shares on the ASX, given the Preference Shares have historically traded infrequently and in low volumes.

Given the capital structure of Coal & Allied, with Rio Tinto Limited (Rio Tinto) holding 75.2% of the voting interests, we consider Preference Shareholders are unlikely to receive an alternative offer for the Preference Shares. In addition, in the event an alternative offer is made (for example a takeover offer) it may not be made on more favourable terms than the Proposed Capital Reduction, as the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a significant premium of 159% to 178% above our estimated fair market value of the Preference Shares and a 44% premium above the last ASX security trading price of the Preference Shares prior to the date of our report. In comparison, Australian studies indicate the premiums required to obtain control of companies and therefore its securities range between 20% and 40% of the portfolio holding values.

Further to this, the Proposed Capital Reduction allows Preference Shareholders to exit from their investment with no transaction costs.

## **Advantages and disadvantages of the Proposed Capital Reduction for Ordinary Shareholders**

### ***The Proposed Capital Reduction will have a minimal financial impact***

Despite the fact that the consideration offered by Coal & Allied to Preference Shareholders is above the range of our estimate of the fair market value of a Preference Share, payment of the consideration will have a very limited impact on the financial position of Ordinary Shareholders as the consideration is immaterial to Coal & Allied. The total cash consideration required to fund the Proposed Capital Reduction is approximately \$2.8 million, which is 0.8% of the company's total cash reserves as at 31 December 2009.

In addition, the consideration being offered to Preference Shareholders is partially offset by the reduction of Coal & Allied's administrative and financial reporting obligations of maintaining the Preference Share register and distributing semi-annual dividends.

### ***Simplified capital structure of Coal & Allied***

The Proposed Capital Reduction will remove redundant funding mechanisms and simplify the capital structure of Coal & Allied. If the Proposed Capital Reduction is approved, ordinary shares will be the only issued securities of Coal & Allied.

In the event Coal & Allied receives a takeover offer for 100% of the company, removal of the Preference Shares will make the company more attractive as a potential purchaser will only need to acquire 100% of the ordinary shares (as opposed to 100% of both the ordinary shares and preference shares) in order to benefit from the tax consolidation regime. We note, however, that Coal & Allied has not been the subject of any recent takeover speculation.

### ***Increased voting rights of Ordinary Shareholders***

Preference Shareholders have the same voting rights as Ordinary Shareholders. If the Proposed Capital Reduction is approved, the proportional voting rights of the Ordinary Shareholders will increase, albeit only marginally. An overview of the proportional increase in the voting rights of Ordinary Shareholders is set out in section 8 of the Explanatory Notes.

### **Other matters**

#### ***No opportunity for Preference Shareholders to participate in the future growth of Coal & Allied***

As the Preference Shareholders have no right to participate in additional dividends, or surplus assets of the company upon winding up, they do not participate in the future growth of Coal & Allied. Therefore, there is no potential future financial benefit to Preference Shareholders, with the exception of the fixed coupon payments, of remaining as an investor in Coal & Allied.

### *Taxation implications*

The Proposed Capital Reduction may crystallise taxation liabilities for individual Preference Shareholders in respect of their investment in the Preference Shares. Refer to section 11 of the Explanatory Notes for an overview of the taxation impacts of the Proposed Capital Reduction on Preference Shareholders. The tax consequences of the Proposed Capital Reduction may vary depending on the particular circumstances of an individual Preference Shareholder. Accordingly, Preference Shareholders should consult their tax advisers in relation to their personal circumstances.

### **Opinion**

Based on the foregoing, in our opinion, the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. Therefore, we are of the opinion that the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. An individual Shareholder's decision in relation to the Proposed Capital Reduction may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

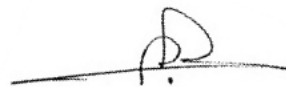
Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



**Andrew Nehill**

Director



**Robin Polson**

Director

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# 1 Terms of the Proposed Capital Reduction

## 1.1 Summary

On 1 March 2010, Coal & Allied announced an intention to cancel the Preference Shares on issue. The cancellation of the Preference Shares will be undertaken by way of the Proposed Capital Reduction. We understand the Preference Shares may be cancelled in accordance with the procedure for the selective reduction of capital outlined under Part 2J.1 of the Corporations Act.

The Proposed Capital Reduction requires Shareholder approval which will be sought from the Ordinary Shareholders who are not also Preference Shareholders at the Annual General Meeting and from the Preference Shareholders at the General Meeting of Preference Shareholders, which will be held immediately following the conclusion of the Annual General Meeting.

We understand Coal & Allied is proposing to pay \$1.50 cash for each Preference Share to Preference Shareholders. This payment will represent an unpaid dividend entitlement on the Preference Shares for the period 1 January 2010 to the date of the cancellation of the Preference Shares (approximately \$0.01 if the Preference Shares are cancelled on 3 May 2010) with the balance representing the consideration for the cancellation of the Preference Shares. A detailed overview of the Proposed Capital Reduction is provided in section 3 of the Explanatory Notes.

## 1.2 Coal & Allied's intentions

Coal & Allied is undertaking the Proposed Capital Reduction in order to simplify the capital structure of Coal & Allied and remove redundant funding mechanisms. The Preference Shares represent less than 2.1% of the voting interests issued by Coal & Allied.

The Proposed Capital Reduction is expected to be funded from Coal & Allied's cash reserves. The total cash consideration required to fund the Proposed Capital Reduction is approximately \$2.8 million, which is 0.8% of the company's total cash reserves as at 31 December 2009.

The Proposed Capital Reduction will reduce the administrative and financial responsibility associated with maintaining a separate share register for the Preference Shareholders, including the half yearly distributions of dividend payments and financial reporting and compliance issues.

In addition, as the market for trading in the Preference Shares has been illiquid for several years (as set out in Section 3.2), Coal & Allied management expect the Proposed Capital Reduction will provide Preference Shareholders with the opportunity to realise immediate value for the Preference Shares, without incurring brokerage costs.

## 1.3 Key conditions

The Proposed Capital Reduction is subject to the passing of a special resolution at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction (including Ordinary Shareholders who are also Preference Shareholders), or by their associates, and the passing of a special resolution by the Preference Shareholders, as set out in section 10 of the Explanatory Notes.

## 2 Scope of the report

### 2.1 Purpose of the report

Whilst an independent expert's report is not required to meet any statutory obligations, the Directors have requested that Deloitte prepare an independent expert's report expressing our opinion as to whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. In arriving at our opinion, we have considered whether the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. This report has been prepared in order to assist Shareholders with the decision to vote in favour of or against the Proposed Capital Reduction at either the Annual General Meeting or General Meeting of Preference Shareholders, which will be held immediately following the conclusion of the Annual General Meeting.

### 2.2 Basis of evaluation

#### 2.2.1 Guidance

In preparing this report we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's reports and Regulatory Guide 112 in respect of the independence of experts.

We have also had regard to Part 2J.1 (Section 256B) of the Corporations Act which permits a reduction in share capital not otherwise authorised by law, if the reduction:

- is fair and reasonable to the company's shareholders as a whole
- does not materially prejudice the company's ability to pay its creditors; and
- is approved by shareholders under Section 256C of the Corporations Act.

There is no statutory definition of the expression "fair and reasonable", and the expression has different meaning for different regulatory purposes.

ASIC Regulatory Guide 111 provides specific guidance on how to form an opinion as to whether an offer is fair and reasonable in respect of a control transaction, being the acquisition (or increase) of a controlling stake in a company. As the Preference Shares relate to less than 2.1% of the total voting interest issued in Coal & Allied and no party will acquire or materially increase a controlling stake in the company as a result of the Proposed Capital Reduction, we consider that the Proposed Capital Reduction does not represent a control transaction.

Notwithstanding that ASIC Regulatory Guide 111 recommends that an independent expert's report should usually accompany the explanatory memorandum to satisfy the information requirements under Section 256C(4) of the Corporations Act, it does not provide specific guidance on how to form an opinion, or the factors to consider in forming such an opinion, in relation to a selective capital reduction which is not also a control transaction.

In the absence of specific guidance within ASIC Regulatory Guide 111, in considering the approach to adopt with respect to the evaluation of the Proposed Capital Reduction, we have considered the guidance provided in relation to a sale of securities approved by securityholders under Section 611 of the Corporations Act, in which independent expert's reports may be provided to discharge the requirement to disclose all material information on how to vote on a particular resolution.



Although since withdrawn by ASIC, we also consider that ASIC Practice Note 29 in relation to selective capital reductions remains a relevant point of reference for assessing whether the Proposed Capital Reduction is fair and reasonable as it specifically considered selective capital reductions that effect the elimination of minority shareholders. In this case, ASIC Practice Note 29 noted that the independent expert's report should state whether the proposal is fair and reasonable to the expropriated shareholders and to the continuing shareholders, in that it strikes a fair balance between the interests of the persons whose shares are to be cancelled and those who will remain in the company. It further noted that the independent expert's report should be prepared as if it were a report for shareholders voting on a resolution under Section 623 of the Corporations Law (now Section 611 of the Corporations Act).

Having regard to the above, we consider it appropriate to assess whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole having regard to both the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders and the advantages and disadvantages of the Proposed Capital Reduction to Ordinary Shareholders. In arriving at our opinion, we have considered whether the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. In considering the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders, we have, amongst other things, compared the consideration being paid for the Preference Shares with our estimate of the fair market value of the Preference Shares.

ASIC Regulatory Guide 111 further recommends that an expert should bear in mind that the main purpose of the independent expert's report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. To this end, we recognise that Preference Shareholders may be concerned that the Proposed Capital Reduction will remove the potential that their Preference Shares may attract an offer that incorporates a significant premium in the event of a takeover offer for Coal & Allied at some point in the future. Although we are not aware of any such offer, we consider that the potential for a future takeover offer should nevertheless be considered in our assessment of the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders.

## **2.2.2 Individual circumstances**

We have evaluated the Proposed Capital Reduction for Shareholders as a whole and have not considered the effect of the Proposed Capital Reduction on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Capital Reduction from that adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Capital Reduction is fair and reasonable. If in doubt investors should consult an independent adviser.

## **2.3 Limitations and reliance on information**

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 3.

We would specifically draw to the attention of Shareholders that recent volatility in capital markets and the current economic outlook has created significant uncertainty with respect to the valuation of assets. Recognising these factors, we consider that our opinions may be more susceptible to change than would normally be the case.



This report has been prepared at the request of the Directors and is to be included in the Explanatory Notes which accompanies the Notices of Meeting to be provided to Shareholders. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notices of Meeting and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (APESB).

Our procedures and enquiries do not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board.

## 3 Overview of the Preference Shares

### 3.1 Introduction

Coal & Allied is an Australian coal mining company which was established in 1960 and listed on the ASX in 1962. Rio Tinto is a major shareholder in Coal & Allied, through its wholly owned subsidiary, Australian Coal Holdings Pty Limited which holds 75.7% of the ordinary shares and 50.0% of the Preference Shares. As a result, Rio Tinto holds 75.2% of the voting interests in Coal & Allied.

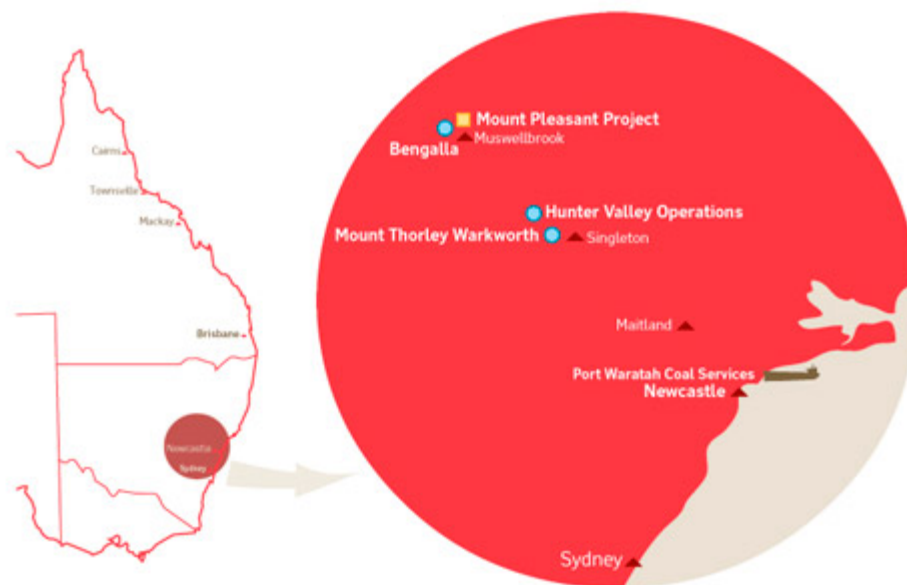
Coal & Allied owns interests in the following coal mines and projects:

- Bengalla (operating)
- Mount Thorley Warkworth (operating)
- Hunter Valley Operations (operating)
- Mount Pleasant (development).

These mines predominantly produce export thermal coal and semi soft coking coal. Coal destined for export markets is railed to the Port Waratah Coal Services Limited coal loading terminal at the Port of Newcastle. Export coal sales are primarily to customers in Japan, Korea and other parts of Asia. Coal is also exported to Europe and the Indian subcontinent.

Figure 1 illustrates the location of the operations and projects of Coal & Allied in the Hunter Valley region in New South Wales.

**Figure 1: Coal & Allied operations and projects**



Source: Coal & Allied website

## 3.2 Capital structure

At the time of listing on the ASX in 1962, Coal & Allied had issued capital of 10 million pounds. In 1966, the British system of 12 pence to a shilling and 20 shillings to a pound was replaced by the decimal currency in Australia, converting the issued share capital of Coal & Allied from 10 million pounds to \$20 million.

The original capital of Coal & Allied comprised:

- two million Preference Shares (at 5 shillings each or \$0.50 each)
- 38 million ordinary shares (at 5 shillings each or \$0.50 each).

As at the date of this report, Coal & Allied had a market capitalisation of \$6.9 billion, comprised of:

- 1,857,180 Preference Shares (ASX ticker: CNAPA) at a current price of \$1.04 per Preference Share
- 86,584,735 fully paid ordinary shares (ASX ticker: CNA) at a current price of \$79.90 per ordinary share.

The following table shows the top ten Preference Shareholders in Coal & Allied as at the date of our report.

**Table 2: Top ten holders of Preference Shares**

Holder name	Volume held	% of total shares outstanding
Australian Coal Holding Pty Limited	928,590	50.0%
J P Morgan Nominees Australia Limited	769,448	41.4%
Winpar Holdings Limited	46,569	2.5%
Mrs Mary Elizabeth Riordan	18,600	1.0%
Equity Trustees Limited (for Cameron superannuation fund)	15,480	0.8%
Mr Ian Edward Morton & Mrs Deborah Lee Morton (for Debian superannuation fund account)	10,260	0.6%
Estate of late James M McIlroy	10,200	0.5%
Patmic Pty Limited	6,000	0.3%
Miss Mary Graham Neild	4,100	0.2%
Batoka Pty Limited	3,800	0.2%
Other	44,133	2.5%
<b>Total</b>	<b>1,857,180</b>	<b>100.0%</b>

Source: Coal & Allied and Computershare

We note the following in regards to the Preference Shares:

- the largest holder of Preference Shares is Rio Tinto (through its wholly owned subsidiary, Australian Coal Holdings Pty Limited)
- approximately 8.6% of the Preference Shares are owned by individual retail shareholders, superannuation funds and trusts
- given the significant shareholdings held by Rio Tinto and JP Morgan Nominees Australia Limited, there is a very small ‘free float’ of the Preference Shares. This is reflected in the low volume and infrequent trading of the Preference Shares on the ASX, as set out below.

**Table 3: Historical trading**

Year ending	High (\$)	Low (\$)	Number of trades per year	Volumes of shares traded
31 December 2000	1.07	1.02	5	3,361
31 December 2001	1.07	1.07	4	2,408
31 December 2002 <sup>1</sup>	1.10	1.05	4	669,548
31 December 2003	1.04	1.02	5	12,512
31 December 2004	1.04	1.00	7	10,820
31 December 2005	1.00	1.00	5	3,235
31 December 2006	1.00	1.00	2	2,380
31 December 2007	1.02	0.89	5	793
31 December 2008	0.93	0.86	2	42
31 December 2009	1.04	0.93	3	2,292

Source: Bloomberg

Note:

1. The large volume of shares traded in 2002 related to the movement of 663,948 Preference Shares between JP Morgan Nominees Australia Limited and NRMA Nominees Pty Limited, a former Preference Shareholder.

### 3.3 Terms of the Preference Share

According to the Constitution of Coal & Allied, Preference Shareholders have:

- the right to a fixed cumulative preferential dividend of 7% per annum on the amount of paid up capital. The dividend right equates to \$0.035 per annum for each Preference Share
- no conversion rights into ordinary shares of Coal & Allied
- no redemption rights
- no right to participate in any other distributions of Coal & Allied
- the same voting rights as ordinary shares, namely one vote per share
- on winding up, the right to be paid all arrears of preferential dividends and repaid the amount of capital paid up, or credited as paid up, in priority to any payment in respect of ordinary shares.

### 3.4 Current status

The Preference Shares are classified by Coal & Allied as debt for accounting purposes, and dividends are recorded to the financial statements as finance charges. At 31 December 2009, the Preference Shares were recorded in the balance sheet of Coal & Allied as non-current borrowings of \$0.9 million.

The Directors declared a final dividend for 2009 of \$0.0175 per Preference Share, fully franked at the current corporate tax rate of 30%, which will be paid on 19 March 2010 to Preference Shareholders who are on the share register at the close of business on 4 March 2010. The ex-dividend date for Preference Shareholders is 26 February 2010.

Apart from this final declared dividend for 2009 and the dividend entitlement accruing since 1 January 2010, there are no arrears of dividends payable by Coal & Allied on the Preference Shares.

## 4 Valuation methodology

### 4.1 Valuation methodologies

To estimate the fair market value of the Preference Shares we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. Whilst these methods are commonly applied to value companies or assets, they can also be applied to securities such as the Preference Shares.

These are discussed below.

#### 4.1.1 Market based methods

Market based methods estimate a company or security's fair market value by considering the market price of transactions in its securities or the market value of comparable companies or securities. Market based methods include:

- capitalisation of maintainable earnings
- analysis of recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. For securities such as the Preference Shares with limited rights beyond a fixed dividend stream, the capitalisation of maintainable earnings method can be applied based on the security's future maintainable dividends and an appropriate dividend yield. An appropriate dividend yield is derived from market transactions involving comparable securities. The capitalisation of maintainable earnings method is appropriate where the company or security's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company or a security than other valuation methods because they may not account for company specific factors.

#### 4.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting an asset's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

### 4.1.3 Asset based methods

Asset based methods estimate the market value of a company based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to securityholders based on the rights of the security, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

## 4.2 Selection of valuation methodologies

In determining the fair market value of the Preference Shares, we have used the capitalisation of future maintainable dividends method due to the following factors:

- the future maintainable dividends of the Preference Shares are able to be estimated with a high degree of confidence given that the Preference Shares have the right to a fixed dividend of 7% per annum on the amount of paid up capital and no other rights to participate in any other distributions of Coal & Allied
- Coal & Allied has a long established track record of paying dividends on Preference Shares semi-annually as they fall due and it is reasonable to expect this would continue in the future
- there is an adequate number of companies with publicly listed preference shares similar to those of Coal & Allied to provide meaningful analysis
- the Preference Shares do not have a finite lifespan nor are they able to be converted into ordinary shares of Coal & Allied.

In addition, as the Preference Shares are listed on the ASX, we have also considered security market trading activity of the Preference Shares in our determination of the fair market value of the Preference Shares.

## **5 Valuation of the Preference Shares**

### **5.1 Introduction**

Deloitte has estimated the fair market value of a Preference Share to be in the range from \$0.54 to \$0.58.

For the purpose of our opinion fair market value is defined as the amount at which the securities would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we have estimated the fair market value of a Preference Share using the capitalisation of future maintainable dividends method and an analysis of security trading activity of the Preference Shares.

Both of these valuation methods are discussed in the following sections.

### **5.2 Capitalisation of future maintainable dividends**

The capitalisation of future maintainable dividends method estimates the fair market value of a security by capitalising future dividends using an appropriate yield. To value the Preference Shares using the capitalisation of future maintainable dividends requires the determination of the following:

- an estimate of future maintainable dividends
- an appropriate dividend yield.

Our considerations on each of these are discussed separately below.

#### **5.2.1 Future maintainable dividends**

Future maintainable dividends represent the level of maintainable dividends that the Preference Shares could reasonably be expected to generate. In this instance, the Preference Shareholders have:

- the right to a fixed cumulative preferential dividend of 7% per annum on the amount of paid up capital, being \$0.035 per annum
- no right to participate in any other distributions of Coal & Allied
- no right to convert to ordinary shares in order to share in the profits or assets of Coal & Allied.

Accordingly, we consider the future maintainable dividends of the Preference Shares to be \$0.035 per annum.

#### **5.2.2 Dividend yield**

We have determined a yield in the range from 6.0% to 6.5% is appropriate to apply to the future maintainable dividends.

In selecting this yield we have considered:

- effective yields derived from market prices of publicly listed preference shares with comparable terms to the Preference Shares
- yields achieved in transactions involving preference shares with comparable terms to the Preference Shares
- yields of corporate bonds with similar risk profiles to the Preference Shares.

These are discussed separately below.

### Market derived yields

The security market valuation of listed preference shares provides evidence of an appropriate dividend yield to apply to the Preference Shares.

We have compiled effective dividend yields from market prices of ASX listed preference shares with comparable terms to the Preference Shares. These effective yields are summarised in the following table.

**Table 4: Effective market trading yields**

Issuing company	Industry	Issue price (\$ per share)	Coupon rate (%)	Current price <sup>1</sup> (\$ per share)	Effective yield <sup>2</sup> (%)
<b>Coal &amp; Allied</b>	<b>Coal mining and production</b>	<b>0.50</b>	<b>7.0%</b>	<b>1.04</b>	<b>3.4%</b>
Carlton Investments Limited (Carlton)	Holding company	2.00	7.0%	2.11	6.6%
Ludowici Limited – A (Ludowici A)	Mineral processing industry supplier	1.00	5.0%	0.90	5.6%
Ludowici Limited – B (Ludowici B)	Mineral processing industry supplier	1.00	6.0%	0.92	6.5%
Webster Limited (Webster)	Intensive agribusiness and aquaculture	1.00	9.0%	1.29	7.0%
Whitefield Limited (Whitefield)	Investment company	1.00	8.0%	1.35	5.9%
<i>Average<sup>3</sup></i>					<b>6.3%</b>
<i>Median<sup>3</sup></i>					<b>6.5%</b>

Source: Bloomberg and Deloitte analysis

Notes:

1. Based on the last traded price prior to the date of our report
2. The effective yield has been calculated by dividing the dividend (being the coupon rate multiplied by the issue price) by the current preference share price
3. The calculation of the average and median excludes Coal & Allied



A summary of the terms of the comparable preference shares compared to the Preference Shares is presented in the following table.

**Table 5: Terms of the comparable preference shares**

Issuing company	Number of preference shares on issue	Fixed coupon rate	Cumulative dividends	Non-redeemable/convertible	Non-participating <sup>1</sup>	Same voting rights as ordinary shareholders
<b>Coal &amp; Allied</b>	<b>1,857,180</b>	<b>7.0%</b>	✓	✓	✓	✓
Carlton	82,978	7.0%	✓	✓	✓	×
Ludowici A	50,000	5.0%	✓	✓	✓	×
Ludowici B	50,000	6.0%	✓	✓	✓	×
Webster	394,000	9.0%	✓	✓	✓	×
Whitefield	23,790	8.0%	✓	✓	✓	✓

Source: Bloomberg and Deloitte analysis

Note:

1. Non-participating rights have been defined as no rights to additional dividends or surplus assets of the company upon winding up.

The above preference shares, by issuing company, are the only listed preference shares traded on the ASX with terms comparable to the Preference Shares, including:

- a fixed coupon rate based on the amount of paid up capital
- dividends which are cumulative in nature
- non redeemable and not convertible into ordinary shares
- no rights to additional dividends, or surplus assets upon winding up of the company.

General comments regarding the comparable preference shares are set out below:

- the fixed coupon rates payable on the above preference shares range from 5.0% to 9.0% per annum based on the amount of paid up capital. The Preference Shares have a fixed 7.0% per annum coupon rate on paid up capital of \$0.50 per Preference Share, consistent with the mid-point of the range of coupon rates of the comparable preference shares
- consistent with the Preference Shares, all of the dividends of the comparable preference shares are cumulative in nature, although the comparable preference shares and the Preference Shares have historically received annual dividend payments
- Coal & Allied has historically paid fully franked dividends to the Preference Shareholders. Carlton, Ludowici A, Ludowici B and Whitefield have historically paid fully franked dividends to preference shareholders. Webster has traditionally paid fully franked dividends to preference shareholders, with the exception of one interim dividend in the financial year ending 30 June 2008 which was not franked
- consistent with the Preference Shares, none of the comparable preference shares are redeemable or convertible into ordinary shares
- comparable to the terms of the Preference Shares, none of the comparable preference shares are entitled to additional dividends or surplus assets of the company upon winding up

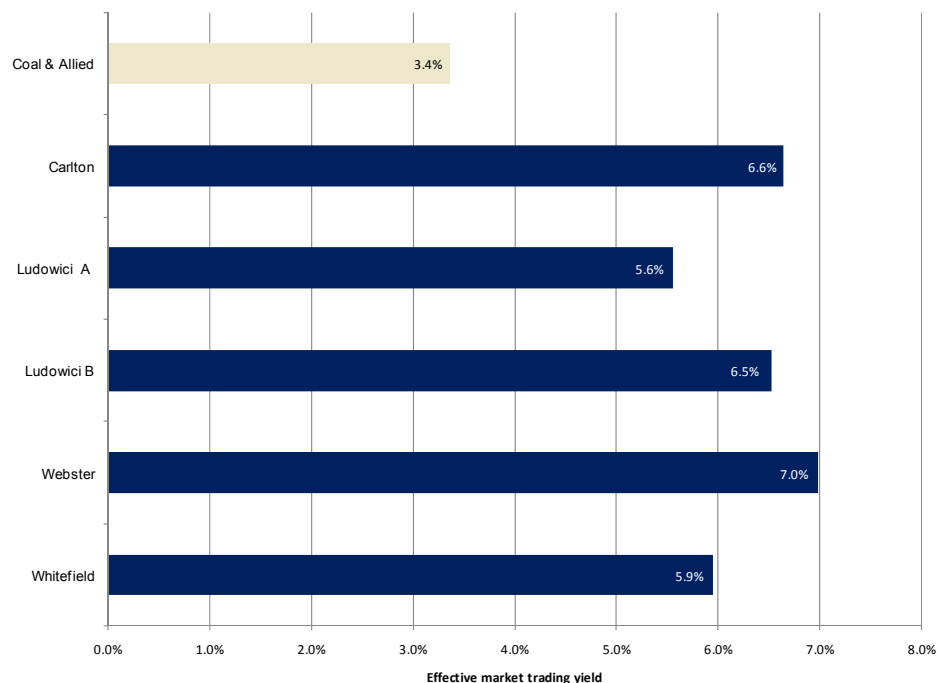
- Preference Shareholders are entitled to the same voting rights as Ordinary Shareholders, which results in the Preference Shareholders having one vote per Preference Share. In contrast, Ludowici A and Ludowici B preference shares are entitled to one vote on a poll<sup>1</sup> and four votes per preference share held. This right provides holders of these preference shares more voting power relative to ordinary shareholders in the relevant companies. Holders of Carlton preference shares may attend and speak at general meetings but do not have a right to vote except on matters which affect the rights of the preference shareholders. The voting rights of the Webster preference shares are limited to matters affecting the rights of the preference shareholders. The only listed preference shares with voting rights comparable to the Preference Shares are the Whitefield preference shares, as they are the same as ordinary shareholders. The effective yield of the Whitefield preference shares is 5.9%
- as set out in Section 3.2, the Preference Shares are traded infrequently and in low volumes. Our analysis indicates all of the comparable preference shares have traded in smaller volumes than Coal & Allied, which is also likely due to the smaller number of preference shares on issue compared with Coal & Allied. Whitefield and Carlton preference shares have not traded since 2007. Ludowici A and Ludowici B preference shares have traded during 2009, however, this was the first trading activity which occurred since 2006. Webster has traded more often than Coal & Allied (by number of trades), however has only traded 313,301 preference shares (or 0.22% of issued equity) since 1 January 2000 (whereby Coal & Allied has traded 707,391 Preference Shares (or 2.47% of issued equity) during this period). Neither the Preference Shares or the comparable preference shares have traded during 2010
- notwithstanding this illiquidity, the effective yields of the comparable preference shares have remained relatively stable since 1 January 2000. The effective yield of the Preference Shares over this period remained below that of the comparable preference shares in the range from 3.2% to 4.1%.

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<sup>1</sup> a poll is a counting of votes (including proxies) at a shareholder's meeting

The following figure summarises the effective yield for the above comparable preference shares as at the date of this report.

**Figure 2: Summary – effective market trading yields**



Source: Bloomberg and Deloitte analysis

### Implied transaction yields

The yield implied by transactions involving preference shares with comparable terms to the Preference Shares provides evidence of an appropriate yield to apply to the Preference Shares.

However, we have been unable to identify any recent transactions involving preference shares with comparable terms to the Preference Shares. Although there have been numerous transactions involving preference shares, all of the relevant securities paid discretionary dividends and are, therefore, not comparable to the Preference Shares.

### Corporate bond yields

In considering an appropriate yield to apply to the future maintainable dividends of the Preference Shares, we have also considered corporate bond yields with a credit rating similar to the Preference Shares. Whilst we consider that the terms of corporate bonds are not directly comparable to the Preference Shares as they are redeemable, corporate bonds do have similar characteristics to preference shares such as fixed coupon payments and limited other rights.

As Coal & Allied has continually paid dividends to the Preference Shareholders, we consider the credit risk of the Preference Shares to be low, and would result in a relatively high credit rating. Therefore we have considered the effective yields of A-rated corporate bonds. As at the date of our report, the effective yields of A rated corporate bonds were in the range from 5.7% to 8.7%, with an average of 6.6%.

## Selected yield

In selecting an appropriate yield to apply to the future maintainable dividends of the Preference Shares we have considered the following:

- the fixed coupon rates payable on the comparable listed preference shares range from 5.0% to 9.0% per annum based on the amount of paid up capital. The Preference Shares have a fixed 7.0% per annum coupon rate on paid up capital of \$0.50 per Preference Share, consistent with the mid-point of the range of coupon rates of the comparable preference shares
- the average effective yields implied from the current market prices of ASX listed preference shares with comparable terms to the Preference Shares is 6.3%
- similar to the Preference Shares, none of the comparable preference shares are redeemable or convertible into ordinary shares, nor are they entitled to additional dividends or surplus assets of the company upon winding up
- the Preference Shareholders are entitled to the same voting rights as Ordinary Shareholders which is different to the majority of the comparable preference shares, with the exception of Whitefield. We would expect additional voting rights to be more attractive to investors and therefore we would expect the associated securities may trade at a premium relative to securities with relatively fewer voting rights
- the effective yield of the Preference Shares for the last ten years (since 1 January 2000) remained below that of the comparable listed preference shares in the range from 3.2% to 4.1%
- there are no recent transactions involving preference shares with comparable terms to the Preference Shares
- the average yield of A rated corporate bonds, traded on the ASX, is 6.6%. We consider these bonds provide evidence of current market yields of securities which have relatively similar rights and risk profiles to the Preference Shares.

As a result of these factors, we have selected a dividend yield of 6.0% to 6.5%.

As the majority of the listed comparable preference shares received fully franked dividends, we do not consider it necessary to make a separate adjustment for the value of imputation credits in selecting an appropriate yield to apply to the future maintainable dividends of the Preference Shares.

### 5.2.3 Valuation: capitalisation of future maintainable dividends

The value of the Preference Shares derived from the capitalisation of future maintainable dividends method is summarised below.

**Table 6: Summary – capitalisation of future maintainable dividends method**

	Units	Low value	High value
Future maintainable dividends	(\$ per share)	0.035	0.035
Selected dividend yield	%	6.5	6.0
<b>Value of the Preference Shares</b>	<b>(\$ per share)</b>	<b>0.54</b>	<b>0.58</b>

Source: Deloitte analysis

## 5.3 Analysis of recent security trading

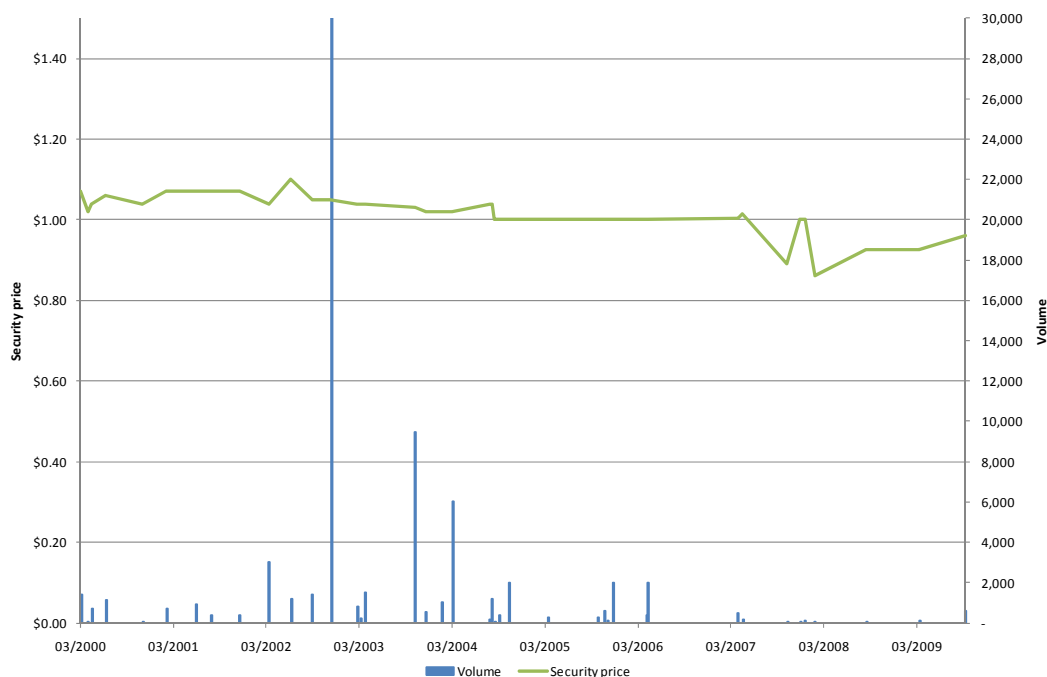
The market can be expected to provide an objective assessment of the fair market value of a security, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities.

Due to the terms of the Preference Shares (i.e. fixed coupon payments) we expect that the financial performance and outlook for Coal & Allied will have a limited impact on the security trading price of the Preference Shares. To the extent, however, that the underlying performance of Coal & Allied impacts the fair market value of the Preference Shares, we consider that the market is sufficiently well informed to assume that the security price represents an objective assessment of the value of the Preference Shares for the following reasons:

- the Managing Director of Coal & Allied presented the full year financial results of the company to the financial community via teleconference on 28 January 2010
- Coal & Allied's preliminary financial report for the year ended 31 December 2009 was released to the market on 27 January 2010, providing a recent update regarding the financial performance of the company
- the production report for the quarter ended 31 December 2009 was released to the market on 14 January 2010, providing a recent update regarding the production activity of the company
- Coal & Allied is followed by a number of equities analysts including UBS Securities, Macquarie Research and RBC Capital Markets.

As shown in the figure below, the security trading price of the Preference Shares ranged from \$0.86 to \$1.10 for the period from 1 January 2000 to the date of our report, although there has been very little trading in the Preference Shares across this period.

**Figure 3: Summary: security trading activity**



Source: Bloomberg and Deloitte analysis

During 2008 and the first quarter of 2009, the Preference Shares experienced low levels of trading activity, with only 134 Preference Shares traded across three transactions in this period.

We consider the value of the Preference Shares derived from an analysis of the security trading in the Preference Shares provides very weak evidence of the fair market value of the Preference Shares given the securities very limited liquidity in recent years.

## 5.4 Conclusions

The valuation of the Preference Shares derived from the capitalisation of future maintainable dividends and analysis of recent security trading methods is summarised in the following table.

**Table 7: Valuation of the Preference Shares**

	Section	Low value (\$ per share)	High value (\$ per share)
Capitalisation of future maintainable dividends	5.2	0.54	0.58
Analysis of recent security trading	5.3	Insufficient liquidity	
<b>Deloitte assessed fair market value</b>		<b>0.54</b>	<b>0.58</b>

Source: Deloitte analysis

Due to the illiquidity of the Preference Shares, we have relied on the capitalisation of future maintainable dividends method in our determination of the fair market value of the Preference Shares.

On this basis, we have assessed a fair market value range of \$0.54 to \$0.58 for the Preference Shares.

## 6 Evaluation and conclusion

### 6.1 Summary and conclusion

In our opinion, the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. Therefore, we are of the opinion that the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole.

In forming this view, we have concluded that the advantages of the Proposed Capital Reduction outweigh the disadvantages for Preference Shareholders and the advantages of the Proposed Capital Reduction outweigh the disadvantages for Ordinary Shareholders.

The key considerations are set out below.

#### Advantages and disadvantages of the Proposed Capital Reduction for Preference Shareholders

##### *The Proposed Capital Reduction is fair to Preference Shareholders*

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a Preference Share with the consideration offered by Coal & Allied in respect of the Proposed Capital Reduction.

**Table 8: Evaluation of fairness**

	Low value \$ per share	High value \$ per share
Estimated fair market value of a Preference Share	0.54	0.58
Estimated fair market value of consideration offered by Coal & Allied	1.50	1.50

Source: Deloitte analysis

The consideration offered by Coal & Allied is above the range of our estimate of the fair market value of a Preference Share. Accordingly it is our opinion that the Proposed Capital Reduction is fair to Preference Shareholders.

The consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a premium of 159% to 178% above our estimated fair market value of a Preference Share.

Further to this, the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a yield of 2.3%. This yield is significantly below the effective yields of the comparable listed preference shares noted in Table 4.

##### *The Proposed Capital Reduction is being undertaken at a significant premium*

The Proposed Capital Reduction is being undertaken at a significant premium to both our estimated fair market value and the last ASX security trading price of \$1.04 per Preference Share prior to the date of our report. The opportunity to realise a significant premium or realise immediate value for the Preference Shares may not otherwise exist through trading the Preference Shares on the ASX, given the Preference Shares have historically traded infrequently and in low volumes.



Given the capital structure of Coal & Allied, with Rio Tinto holding 75.2% of the voting interests, we consider Preference Shareholders are unlikely to receive an alternative offer for the Preference Shares. In addition, in the event an alternative offer is made (for example a takeover offer) it may not be made on more favourable terms than the Proposed Capital Reduction, as the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a significant premium of 159% to 178% above our estimated fair market value of the Preference Shares and a 44% premium above the last ASX security trading price of the Preference Shares prior to the date of our report. In comparison, Australian studies indicate the premiums required to obtain control of companies and therefore its securities range between 20% and 40% of the portfolio holding values.

Further to this, the Proposed Capital Reduction allows Preference Shareholders to exit from their investment with no transaction costs.

### **Advantages and disadvantages of the Proposed Capital Reduction for Ordinary Shareholders**

#### ***The Proposed Capital Reduction will have a minimal financial impact***

Despite the fact that the consideration offered by Coal & Allied to Preference Shareholders is above the range of our estimate of the fair market value of a Preference Share, payment of the consideration will have a very limited impact on the financial position of Ordinary Shareholders as the consideration is immaterial to Coal & Allied. The total cash consideration required to fund the Proposed Capital Reduction is approximately \$2.8 million, which is 0.8% of the company's total cash reserves as at 31 December 2009.

In addition, the consideration being offered to Preference Shareholders is partially offset by the reduction of Coal & Allied's administrative and financial reporting obligations of maintaining the Preference Share register and distributing semi-annual dividends.

#### ***Simplified capital structure of Coal & Allied***

The Proposed Capital Reduction will remove redundant funding mechanisms and simplify the capital structure of Coal & Allied. If the Proposed Capital Reduction is approved, ordinary shares will be the only issued securities of Coal & Allied.

In the event Coal & Allied receives a takeover offer for 100% of the company, removal of the Preference Shares will make the company more attractive as a potential purchaser will only need to acquire 100% of the ordinary shares (as opposed to 100% of both the ordinary shares and preference shares) in order to benefit from the tax consolidation regime. We note, however, that Coal & Allied has not been the subject of any recent takeover speculation.

#### ***Increased voting rights of Ordinary Shareholders***

Preference Shareholders have the same voting rights as Ordinary Shareholders. If the Proposed Capital Reduction is approved, the proportional voting rights of the Ordinary Shareholders will increase, albeit only marginally. An overview of the proportional increase in the voting rights of Ordinary Shareholders is set out in section 8 of the Explanatory Notes.

## Other matters

### *No opportunity for Preference Shareholders to participate in the future growth of Coal & Allied*

As the Preference Shareholders have no right to participate in additional dividends, or surplus assets of the company upon winding up, they do not participate in the future growth of Coal & Allied. Therefore, there is no potential future financial benefit to Preference Shareholders, with the exception of the fixed coupon payments, of remaining as an investor in Coal & Allied.

### *Taxation implications*

The Proposed Capital Reduction may crystallise taxation liabilities for individual Preference Shareholders in respect of their investment in the Preference Shares. Refer to section 11 of the Explanatory Notes for an overview of the taxation impacts of the Proposed Capital Reduction on Preference Shareholders. The tax consequences of the Proposed Capital Reduction may vary depending on the particular circumstances of an individual Preference Shareholder. Accordingly, Preference Shareholders should consult their tax advisers in relation to their personal circumstances.

## 6.2 Conclusion

On balance, in our opinion, the advantages of the Proposed Capital Reduction outweigh the disadvantages for Preference Shareholders and the advantages of the Proposed Capital Reduction outweigh the disadvantages for Ordinary Shareholders.

Based on the foregoing, in our opinion, the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. Therefore, we are of the opinion that the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole.

# Appendix 1: Glossary

Reference	Definition
\$	All amounts stated in this report are in Australian dollars unless otherwise noted and may be subject to rounding
AFSL	Australian Financial Services Licence
APESB	Accounting Professional and Ethical Standards Board Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Carlton	Carlton Investments Limited
Coal & Allied	Coal & Allied Industries Limited
Corporations Act	Corporations Act 2001 (Cth)
Deloitte	Deloitte Corporate Finance Pty Limited
Deloitte Australia	Deloitte member firm in Australia
Directors	The directors of Coal & Allied
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Ludowici A	Ludowici Limited - A
Ludowici B	Ludowici Limited - B
Notices of Meeting	The Notice of Annual General Meeting and the Notice of Meeting – Holders of Preference Shares
Ordinary Shareholders	holders of ordinary shares
Preference Shares	Coal & Allied preference shares on issue
Preference Shareholders	holders of the Preference Shares
Proposed Capital Reduction	Cancellation of the Preference Shares via a proposed selective capital reduction
Rio Tinto	Rio Tinto Limited
Shareholders	Existing shareholders of Coal & Allied
Webster	Webster Limited
Whitefield	Whitefield Limited

## Appendix 2: Sources of information

In preparing this report we have had access to the following principal sources of information:

- drafts of the Notices of Meeting and Explanatory Notes
- Coal & Allied's application for a class ruling - letter to the Deputy Commissioner of Taxation, dated 14 December 2009
- memorandum and articles of association for Coal & Allied, 1954
- Constitution of Coal & Allied, as adopted by special resolution on 30 April 2001 and amended by special resolution on 17 April 2009
- financial reports for Coal & Allied for the year ended 31 December 2009, 31 December 2008, 31 December 2007, 31 December 2006 and 31 December 2005
- company websites for Coal & Allied and the issuing companies of the comparable preference shares
- publicly available information on the comparable listed preference shares, corporate bonds and transactions involving preference shares published by ASIC, ASX, Bloomberg Financial markets, Connect4, Capital IQ, SDC Platinum and Mergermarket
- other publicly available information on Coal & Allied and the comparable preference shares.

In addition, we have had discussions and correspondence with certain directors and executives, including Matthew Halliday, Chief Financial Officer and Robert O'Toole, Corporate Counsel – Legal, Rio Tinto Coal Australia; in relation to the above information and the Proposed Capital Reduction.

## Appendix 3: Qualifications, declarations and consents

The report has been prepared at the request of the Directors of Coal & Allied and is to be included in the Explanatory Notes which accompanies the Notices of Meeting to be issued to Shareholders. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notices of Meeting in their assessment of the Proposed Capital Reduction outlined in the report and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Capital Reduction. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte of its opinion as to whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. Deloitte consents to this report accompanying the Notices of Meeting.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by Coal & Allied and its officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Coal & Allied management for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by Coal & Allied and its officers, employees, agents or advisors, Coal & Allied has agreed that it will not make any claim against Deloitte to recover any loss or damage which Coal & Allied may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by Coal & Allied and its officers, employees, agents or advisors or the failure by Coal & Allied and its officers, employees, agents or advisors to provide Deloitte with any material information relating to the Proposed Capital Reduction.

Deloitte holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Andrew Nehill, B.Comm, FCA, Grad.Dip.App.Fin, Robin Polson, B.Comm, Grad.Dip.App.Fin and Renee Daus, B.Comm, CA, M. App Fin. Andrew and Robin are Directors and Renee is an Associate Director of Deloitte. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte will receive a fee of \$60,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Capital Reduction.

### Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 123 Eagle Street, Brisbane QLD 4000 acknowledges that:

- Coal & Allied proposes to issue a disclosure document in respect of the Proposed Capital Reduction (the Notices of Meeting including Explanatory Notes)

- the Notices of Meeting will be issued in hard copy and be available in electronic format
- it has previously received copies of the Notices of Meeting for review
- it is named in the Notices of Meeting as the 'independent expert' and its independent expert's report accompanies the Notices of Meeting.

On the basis that the Notices of Meeting are consistent in all material respects with the draft Notices of Meeting received, Deloitte Corporate Finance Pty Limited consents to it being named in the Notices of Meeting in the form and context in which it is so named, for the independent expert's report to accompany the Notices of Meeting and to all references to its independent expert's report in the form and context in which they are included, whether the Notices of Meeting are issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Notices of Meeting and takes no responsibility for any part of the Notices of Meeting, other than any references to its name and the independent expert's report.

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