

MACARTHUR

ABN 40 096 001 955

and its Controlled Entities

COAL

LIMITED

HALF YEARLY
REPORT TO
SHAREHOLDERS

for six months ended
31 December 2002

31 December 2002

CONTENTS

Corporate Directory	2
Report on Activities for the six months ended 31 December 2002	3
Highlights	3
Review of Operations	3
Dividend	7
Management Team	7
Summary of Financial Information	7
Statement of Financial Performance	7
Statement of Financial Position	8
Statement of Cash Flows	8

CORPORATE DIRECTORY

Directors

Hon. Keith De Lacy	Chairman
Roger Marshall, OBE	Deputy Chairman
Ken Talbot	Managing Director & Chief Executive Officer
Don Nissen	Non-Executive Director & Chairman of the Audit Committee

Company Secretary

Bob Adams

Registered Office

Level 10, 380 Queen Street
Brisbane Qld 4000

Mailing Address

PO Box 7146
Riverside Centre
Qld 4001

Telephone : 07 3221 7210

Facsimile : 07 3229 1776

E-mail : info@macarthurcoal.com.au

Website: www.macarthurcoal.com.au

Shareholder Enquiries

Computershare Investor Services Pty Limited
Level 27, Central Plaza One
345 Queen Street
Brisbane Qld 4000
Telephone: 1300 552 270
Website: www.computershare.com.au

Stock Exchange

Macarthur Coal Limited's shares and convertible notes are quoted on the Australian Stock Exchange with the following codes:

- Ordinary shares MCC
- Convertible notes MCCG

REPORT ON ACTIVITIES FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

HIGHLIGHTS

- ▶ Coal revenue of A\$62.8 million
- ▶ EBITDA of A\$14.2 million
- ▶ Interim net profit after tax of A\$5.1 million
- ▶ Interim dividend of 3.2 cents per share declared
- ▶ Successful completion of A\$30 million Convertible Note issue
- ▶ Transport infrastructure corridor (TIC) relocation commenced
- ▶ Interest in the Coppabella Mine increased from 45% to 50%
- ▶ Interest in the Moorvale Project increased from 74.7% to 77%
- ▶ Removal of overburden commenced at Moorvale
- ▶ Water pipeline installed to increase water supply for the Coppabella and Moorvale mines.

REVIEW OF OPERATIONS

Sales

Coal sold by the Coppabella Mine and tonnage attributable to Macarthur Coal is set out in the following table:

	Half-Year Ended 31-Dec-01 Tonnes	Half-Year Ended 31-Dec-02 Tonnes	Variance Tonnes
COPPABELLA (Produced and purchased coal)	2,133,788	2,015,519	(118,269)
MACARTHUR COAL			
Share of coal based on initial 45% joint venture interest	960,205	906,984	(53,221)
Additional coal due to 5% increase in the Coppabella Joint Venture		100,776	100,776
Total	960,205	1,007,760	47,555

Coppabella Mine sales in the September 2002 quarter were 19.7% lower than sales in the September 2001 quarter. Management deferred sales in the September 2002 quarter to build product stockpiles depleted prior to 30 June 2002. The replenishment of stockpiles was necessary to meet ongoing shipping programme requirements. In contrast, Coppabella Mine sales in the December 2002 quarter were the second highest on record; 7.2% higher than sales in the December 2001 quarter.

Macarthur Coal achieved an increase of 47,555 tonnes for the half-year despite reduced sales for the Coppabella Mine. The increase is attributable to Macarthur Coal's interest in the Coppabella Joint Venture rising from 45% to 50% on 1 July 2002.

Revenue

Macarthur Coal's total revenue for the half-year was A\$63.6 million. The major component was A\$62.8 million from Coppabella coal sales, up 5.5% on revenue for the same period in 2001.

The revenue increase is primarily due to increased volume of coal sold by Macarthur Coal due to the change in its Coppabella Joint Venture interests.

The average coal price for the half-year to December 2002 was A\$62.36/tonne compared with A\$62.04/tonne for the half-year to December 2001, despite a reduction in the US dollar coal price effective 1 April 2002. The impact of the reduced coal price was offset by the implementation of the company's foreign exchange hedging programme in September 2001.

The A\$:US\$ exchange rate, inclusive of the benefit from foreign exchange hedging for the half-year, averaged A\$0.520 compared to A\$0.556 for the six months to December 2001.

If the sustained lift in the Australian currency against the US dollar continues, Macarthur Coal is well positioned to continue to benefit from hedging contracts.

The value of foreign exchange contracts held at 31 December 2002 was:

FOREIGN EXCHANGE HEDGING		
Period covered by FX Hedge Contracts	US dollar value	FX rate A\$1.00 = US\$
Jan 03 to Jun 03	31,126,200	0.506
Jul 03 to Jun 04	51,363,600	0.496
Jul 04 to Jun 05	19,134,100	0.512
Total	101,623,900	0.502

The marked-to-market value of the foreign exchange hedge book as at 31 December 2002 was A\$16.2 million.

Expenditure

Expenditure by Macarthur Coal for the half-year ended December 2002 was A\$54.7 million, up A\$7.3 million on the same period in 2001. The major factors contributing to the increase and the financial impact on Macarthur Coal are:

- ▶ Overburden removal and mining costs of A\$3.9 million at the Coppabella Mine;
- ▶ An A\$1.3 million cost due to the drought, attributable to the following:
 - higher cost of purchased water; and
 - trucking of coarse material from the coal preparation plant.
- ▶ Borrowing costs of A\$0.9 million; and
- ▶ Depreciation and amortisation of A\$0.6 million.

Coppabella Mine

Overburden Removal and Mining

Overburden removal and mining cost increases during the six-month period to December 2002 were the result of:

- ▶ Price escalations based on CPI and other index movements;
- ▶ Diesel fuel price increases resulting from escalating oil prices;
- ▶ Increased strip ratios due to mining of deeper areas within the Johnson and Creek pits; and
- ▶ More difficult mining conditions experienced in the northern end of the Johnson Pit where the coal seam splits and is affected by numerous faults resulting in:
 - Coal losses and associated non-recurring write off of capitalised overburden removal costs; and
 - Reduced coal preparation yields.

The high strip ratio and mining of low yielding coal is due to the transport infrastructure corridor (TIC) restricting mining to the Johnson, Creek and East pits. Access to higher yielding coal and lower strip ratio areas will become possible after the Peak Downs Highway and Goonyella-Hay Point rail line have been relocated.

The Coppabella Mine had low in-pit inventories and depleted coal stockpiles at the beginning of the financial year. Overburden removal capacity was increased to re-establish in-pit inventories, raise coal production and prepare the mine for the dragline. The acceleration of overburden removal coincided with associated pricing reaching an unprecedented high.

A Marion 8200 dragline is being introduced to reduce the price of overburden removal.

The Marion 8200 dragline was shipped from the USA by Roche Mining, arriving in Australia during May 2002. Reconditioning and reassembly of the dragline was undertaken and completed during December 2002. The dragline was "walked" to the Johnson Pit for operational commissioning and is nearing completion.

Introduction of dragline operations has required modification to the Johnson Pit including increasing pre-stripped areas ahead of mining and the realignment of mining strips. Additionally, out-of-pit dumping has been necessary to create a void alongside the first strip to be uncovered by the dragline.

Macarthur Coal's share of the cost of pre-stripping and overburden removal to create the void was A\$2.7 million. The cost has been capitalised as a prepayment and will therefore not affect operating expenditure for

the half-year. Amortisation will occur on a production basis over the five-year term of the Roche Mining dragline contract.

The price charged for overburden removal will decrease after 30 June 2003 and reduce further after 30 June 2004. The cash flow benefit will occur immediately after reduced overburden prices take effect. Profits will benefit from the reduced price on a delayed basis as overburden costs are initially capitalised and then expensed on a progressive basis.

Water

Water has been a critical issue due to the severe drought conditions impacting on Central Queensland. The total rainfall at the Coppabella Mine for the half-year was 64 millimetres.

A new pipeline linking the Coppabella Mine to a reliable source of offsite water was completed during October 2002. The pipeline provides up to 1,500 megalitres of water per annum. The Coppabella Mine has been able to operate at normal production rates during the drought conditions using water from the new pipeline and the Braeside pipeline.

Despite the new pipeline, the drought has adversely affected mining costs. Water in on-site dams has been depleted and the mine has been operating using purchased water supplied by pipeline. In past years, purchased water was only used to supplement water from mine site dams.

Water costs at the Coppabella Mine were up 565% on the corresponding six-month period last year.

To conserve water, the co-disposal system, normally used to remove coarse waste material from the coal preparation plant, was not operated during the six-month period. As a result, trucks have been used to move the coarse material at significantly higher costs.

The re-connection of the co-disposal system is dependent upon rainfall runoff providing sufficient water for the system to operate without affecting the supply of water for other processing requirements.

Other

Borrowings

The level of borrowings was increased to finance acquisitions and business expansion. A bridging loan was established in September 2002 and replaced in December 2002 by a successful A\$30 million convertible note issue. Funds from the convertible note issue were applied to:

- ▶ Refinancing the acquisition cost of an additional 5% interest in the Coppabella Joint Venture;
- ▶ Funding part of the acquisition cost of the Monto Project; and

- ▶ Financing contributions to the funding of project development costs for the Moorvale and Monto projects.

The convertible note maturity date is 9 December 2005 and interest payable is at a fixed rate of 10% per annum. The interest payment dates during the term of the convertible notes are:

- ▶ Monday 30 June 2003;
- ▶ Wednesday 31 December 2003;
- ▶ Wednesday 30 June 2004;
- ▶ Friday 31 December 2004;
- ▶ Thursday 30 June 2005; and
- ▶ Friday 9 December 2005.

Depreciation and Amortisation

Depreciation and amortisation charges increased as a result of the enlarged asset base. Capital expenditure (subject to depreciation and amortisation) of A\$10.7 million over the 18 month period to December 2002, contributed to the increase. Major capital expenditure items included the following:

- ▶ Addition of a flotation circuit to the Coppabella coal preparation plant;
- ▶ New water pipeline;
- ▶ Power supply infrastructure for the new dragline; and
- ▶ East Pit ramp.

Earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the six-month period was A\$14.2 million, down A\$2.7 million from the same period in 2001.

EBITDA for the September 2002 quarter was A\$4.3 million, 48.9% lower than EBITDA for the same period in 2001 as a result of Coppabella Mine sales being held back and increased costs.

EBITDA for the December 2002 quarter was A\$9.9 million, an increase of 16.5% compared with the result for the December 2001 quarter. The significant improvement was achieved due to strong sales performance for the quarter.

Net profit after tax for the half-year was A\$5.1 million, A\$3.6 million lower than for the previous corresponding period.

New Projects

Relocation of the Transport Infrastructure Corridor (TIC)

The relocation of the TIC is being undertaken to provide access to 28.2 million tonnes of additional coal reserves.

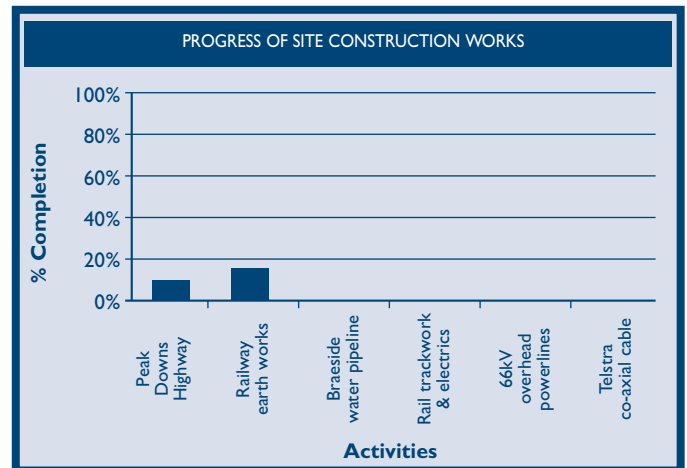
Commencement of the TIC Relocation Project was originally planned for January 2002, however delays in third party approvals resulted in work commencing in late November 2002. The project's planned duration remains 18 months, however management is seeking to expedite project completion.

Until February 2004, mining is restricted to the Johnson, Creek and East pits.

The schedule for TIC relocation completion is:

	Due Date
Completion of the Peaks Downs Highway	July 2003
Completion of the railway formation	July 2003
Completion of the Braeside water pipeline	July 2003
Completion of the 66kV overhead powerlines	July 2003
Completion of the Telstra co-axial cable	July 2003
Transfer of rail formation to Queensland Rail	July 2003
Completion of track work, electrification and signaling by Queensland Rail	December 2003
Access to coal in southern reserves	February 2004
Completion of removal of existing infrastructure	April 2004

The following graph sets out progress achieved to date on relocating infrastructure.



The Queensland Government is facilitating the development of the underlying coal reserves, including the relocation of 5.6 km of the Peak Downs Highway and the Goonyella-Hay Point rail line. The Coppabella Joint Venture will pay a fee for the facilitation of the project, payable on a quarterly basis over a ten-year period. The total commitment of the Coppabella Joint Venture over the ten-year period is A\$36.0 million exclusive of GST (Macarthur Coal's share A\$18.0 million). The first payment occurred in the December 2002 quarter.

Moorvale

Mining leases were granted on 5 December 2002. Australian Premium Coals Pty Ltd (Manager of the Moorvale Joint Venture) commenced mine development immediately after the mining leases were granted.

By the end of December 2002, 35,000 bank cubic metres of overburden had been removed from the initial mining area.

Infrastructure development is expected to be completed in the December 2003 quarter. Management is endeavouring to expedite the development of Moorvale.

The total estimated project cost is A\$65.7 million to be funded by contributions from the Moorvale Joint Venture participants and a term loan facility to be provided by the project financiers. Macarthur Coal's contribution is expected to be A\$12.5 million. The project financiers are the same as for the existing Coppabella facilities, being:

- ▶ ABN AMRO Bank N.V.;
- ▶ SG Australia Limited;
- ▶ WestLB AG;
- ▶ Commonwealth Bank of Australia; and
- ▶ BOS International (Australia) Limited.

The project finance facility documents were recently signed and the facilities being made available to the Moorvale Joint Venture participants include:

- ▶ Term loan US\$28.9 million (Macarthur Coal's share US\$22.3 million);
- ▶ Working capital loan A\$10 million (Macarthur Coal's share A\$7.7 million); and
- ▶ Bank guarantees A\$10 million (Macarthur Coal's share A\$7.7 million).

The term loan has been denominated in US dollars to allow the Moorvale Joint Venture participants to:

- ▶ Benefit from the very low interest rates applicable to US dollar denominated loans; and
- ▶ Reduce foreign exchange risk by offsetting the foreign exchange exposure on the US dollar loan repayments against the foreign exchange exposure on a corresponding amount of Moorvale Project US dollar income.

The facilities mature in November 2008. The project loan facility for the Coppabella Project was also amended to mature in November 2008.

The Moorvale Joint Venture participants anticipate drawing down the facilities over the second half of the

current financial year after the following "conditions precedent" requirements have been satisfied:

- ▶ Finalising material contracts;
- ▶ Obtaining FIRB approvals by the other Moorvale Joint Venture participants;
- ▶ Stamping and registering land transfers and finance documents; and
- ▶ Assigning mining leases to the Moorvale Joint Venture participants.

Monto

Development of Stage 1 of the Monto Project is contingent upon the granting of the mining lease. Mining lease applications are subject to objections which may be submitted during a set objection period.

Four objections to the granting of the Monto Stage 1 mining lease were received and are being considered by the Land and Resources Tribunal.

Exploration

Exploration of the company's extensive tenement package remains a high priority due to the strategic importance of new coal deposits in facilitating future growth.

Coxendean Sub-basin

1. Olive Downs

The potential of the Olive Downs deposit as a satellite mining operation to the Moorvale Mine is being investigated.

Measured resources north of the Isaac River are 10.5 million tonnes at a depth of cover less than 80 metres. A conceptual mine plan was devised for the open cut resources and LOX line drilling was undertaken to determine the cut off for the initial pit.

Additional open cut resources south of the Isaac River have been delineated by grid drilling. Samples are being analysed.

2. Codrilla

Grid drilling was completed and samples analysed. Geological modelling was also undertaken to establish the bulk of the resources at Measured status. Resources identified to date are:

RESOURCE STATUS - CODRILLA						
Status	Seam	Ave Thickness metres	50-100m depth M tonnes	100-150m depth M tonnes	150-180m depth M tonnes	Total M tonnes
Measured	Leichhardt Lower 2	2.2	3.5	5.1	-	8.6
	Vermont Upper	7.1	11.1	21.8	-	32.9
Subtotal			14.6	26.9	-	41.5
Indicated	Leichhardt Lower 2	2.0	-	3.1	-	3.1
	Vermont Upper	7.2	-	-	14.8	14.8
Subtotal			-	3.1	14.8	17.9
Total			14.6	30.0	14.8	59.4

An assessment of the Codrilla deposit's potential as a satellite mining operation to the Moorvale Mine is also being investigated.

3. Other

Seismic surveys across the remainder of the Coxendean sub-basin tenements were undertaken and the results are being used to define targets for follow up drilling.

Other Exploration Areas

The number of exploration tenements was increased during the December 2002 half-year.

EPC 769 was granted on 3 September 2002. It is a large grass roots tenement covering 1,100 sq kilometres east of Blackwater and was obtained to test the possibility of an eastern extension of the Bowen Basin. An initial aeromagnetic survey was undertaken and results are being evaluated.

EPC 786, Freitag Creek, was granted on 11 December 2002. The tenement covers 350 sq kilometres west of Rolleston in the south western corner of the Bowen Basin. Drill hole and outcrop data obtained from the public domain indicate the existence of Rolleston style coals within the area. The potential of the area will be enhanced if the construction of rail infrastructure at the Rolleston Mine proceeds.

Applications for two additional tenements were lodged with the Department of Natural Resources and Mines in the last six months. One tenement is an extension of the existing Coxendean sub-basin tenements. The second tenement is approximately 10 kilometres to the north of the Burton Mine. Exploration will be undertaken on both tenements to ascertain if coal seams in adjacent areas extend into the new tenements.

The information in the Report on Activities for the half-year to December 2002 that relates to Mineral Resources at Codrilla and Olive Downs is derived from geological modelling by Mr Greg Jones of JB Mining Services Pty Ltd with information compiled by Lance Grimstone of Lance Grimstone & Associates Pty Ltd.

Greg Jones, BSc (Hons), MAusIMM, MAIG is a member of The Australasian Institute of Mining and Metallurgy and a director of JB Mining Services Pty Ltd (ABN 99 050 708 596).

Lance Grimstone, BSc (Hons) Geol, Grad Dip Mngt, FAusIMM, CPGeo, MMICA, is a Fellow of The Australasian Institute of Mining and Metallurgy, and a director of Lance Grimstone & Associates Pty Ltd (ABN 67 010 508 531).

Both Mr Jones and Mr Grimstone have sufficient experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity which they are undertaking to qualify as Competent Persons as defined in the 1999 Edition of the Australian Code for Reporting of Mineral Resources and Ore Reserves.

Both Mr Jones and Mr Grimstone consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

DIVIDEND

Directors declared the payment of an interim dividend of 3.2 cents per share, fully franked. Payment of the dividend is scheduled for 23 April 2003.

MANAGEMENT TEAM

The management team has been strengthened by the addition of Nicole Hollows as Chief Financial Officer. Macarthur Coal is well equipped to progress its growth strategy with a team consisting of Ken Talbot, Shane Stephan, Denis Wood, Taff Greenwood, Nicole Hollows and Bob Adams.

Ian McRae retired in December 2002 after a long and successful career within the mining industry. Ian was Senior Site Executive at the Coppabella Mine for nearly two years before joining Macarthur Coal.

SUMMARY OF FINANCIAL INFORMATION

MACARTHUR COAL LIMITED AND ITS CONTROLLED ENTITIES

STATEMENT OF FINANCIAL PERFORMANCE

For the half-year ended 31 December 2002

	Consolidated	
	2002 \$'000	2001 \$'000
Sales revenue	62,848	59,573
Cost of goods sold	(47,770)	(41,501)
Gross profit	15,078	18,072
Other revenue from ordinary activities	768	912
Distribution expenses	(2,677)	(3,454)
Administration expenses	(1,671)	(966)
Borrowing costs	(1,440)	(551)
Other expenses from ordinary activities	(1,187)	(939)
Profit (loss) from ordinary activities before income tax expense	8,871	13,074
Income tax expense	(3,764)	(4,319)
Net profit	5,107	8,755
Net profit attributable to outside equity interests	-	-
Net profit attributable to members of the parent entity	5,107	8,755

STATEMENT OF FINANCIAL POSITION

As at 31 December 2002

	Consolidated	
	31 December 2002 \$'000	30 June 2002 \$'000
Current assets		
Cash	7,204	13,923
Receivables	16,064	9,348
Inventories	2,992	1,069
Cash not at call	19,413	14,814
Overburden in advance	15,051	9,617
Foreign currency contracts	12,112	8,796
Deferred loss on foreign currency contracts	-	61
Other	971	301
Total current assets	73,807	57,929
Non-current assets		
Receivables	2,024	1,855
Property, plant and equipment	115,662	91,422
Exploration, evaluation and development expenditure	58,363	53,221
Foreign currency contracts	9,174	9,780
Deferred tax assets	2,876	1,984
Overburden in advance	2,140	-
Other	2,561	746
Total non-current assets	192,800	159,008
Total assets	266,607	216,937
Current liabilities		
Payables	23,367	17,553
Interest-bearing liabilities	5,078	4,774
Current tax liabilities	6,482	5,065
Provisions	875	705
Foreign currency contracts	-	61
Deferred gains on foreign currency contracts	11,929	9,404
Other financial liabilities	969	-
Total current liabilities	48,700	37,562
Non-current liabilities		
Payables	10,000	10,000
Interest-bearing liabilities	46,557	14,922
Deferred tax liabilities	8,446	5,567
Provisions	3,492	2,002
Deferred gains on foreign currency contracts	9,983	10,685
Other financial liabilities	2,236	-
Total non-current liabilities	80,714	43,176
Total liabilities	129,414	80,738
Net assets	137,193	136,199
Equity		
Contributed equity	124,931	124,931
Retained profits	12,262	11,268
Total equity	137,193	136,199

STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2002

	Consolidated	
	2002 \$'000	2001 \$'000
Cash flows from operating activities		
Cash receipts in the course of operations	57,516	59,151
Cash payments in the course of operations	(53,887)	(48,101)
Interest received	249	540
Borrowing costs paid	(2,905)	(940)
Income taxes paid	(590)	-
Net cash provided by operating activities	383	10,650
Cash flows from investing activities		
Payment for acquisition of joint venture interests and related assets and controlled entities (net of cash acquired)	(11,267)	(16,162)
Payments for property, plant and equipment	(13,284)	(1,523)
Payments for purchases of mining tenements	(2,657)	-
Payments for exploration, evaluation and development expenditure	(5,142)	(3,017)
Payments for other financial assets	(3,613)	(18,408)
Net cash used in investing activities	(35,963)	(39,110)
Cash flows from financing activities		
Proceeds from issue of shares	-	35,386
Proceeds from issue of Convertible Notes	30,000	-
Cost of share reduction	-	(3,000)
Proceeds from borrowings	19,382	5,253
Repayment of borrowings	(19,614)	(1,832)
Dividends paid	(4,113)	-
Other proceeds	3,206	-
Net cash provided by financing activities	28,861	35,807
Net increase (decrease) in cash held	(6,719)	7,347
Cash at the beginning of the financial period	13,923	0
Cash at the end of the financial period	7,204	7,347

The Statement of Financial Performance, Statement of Financial Position and Statement of Cashflows should be read in conjunction with the last annual report and announcements lodged with ASX by Macarthur Coal Limited since 1 July 2002.

A copy of the annual report and ASX announcements can be found on Macarthur Coal Limited's website:

www.macarthurcoal.com.au

DECEMBER 2002

MACARTHUR COAL

HALF YEARLY REPORT