MACARTHUR COAL LIMITED

# MACARTHUR COAL LIMITED ABN 40 096 001 955

## Quarterly Report for the three months ended 31 December 2003

## OVERVIEW

### Operations

- Coppabella Mine has 4.2 million tonnes per annum (Mtpa) of saleable coal production capacity.
- Moorvale Mine, with a planned 1.6 Mtpa saleable coal production, has a first year target of 1 million tonnes, upgraded from 0.75 million tonnes.

  Development of the Moorvale Mine is complete with the exception of the electrification of the rail spur and loop and coal preparation plant completion testing.

  Macarthur Coal has achieved its objective of becoming a two mine operation.

  Overall low volatile PCI coal production capacity is approximately 5 Mtpa with an additional 800,000 tonnes of thermal coal. Macarthur Coal's attributable entitlement is 4.25 Mtpa.
- Operational issues limited the performance of the Coppabella Mine as follows for the six months to 31 December 2003:

  1) Operations are constrained to the Johnson Pit pending the removal of the Transport Infrastructure Corridor (TIC). Mining in the Johnson Pit is subject to increased strip ratios as a consequence of deeper mining. Yield has been negatively impacted by the mining of poorer quality coal in the north of the pit.
  2) As previously advised, first quarter production targets were not achieved, principally due to a drill and blast failure. The contractor subsequently advised that production would be on schedule by the end of the second quarter.

     At 31 December 2003 the contractor advised that the production shortfall is likely to continue until June 2004 due to delayed access to the higher yielding coal in the South Pit and wet weather. Production shortfall for the 2004 financial year may be as much as 200,000 tonnes.
  3) Pit inventories and stockpiles were insufficient to allow optimal blending of ROM coals to maximise yield.

  The projected production shortfall is likely to prevent satisfaction of all contractual commitments for the current Japanese Financial Year (JFY 03). Outstanding JFY 03 tonnage is to be supplied at JFY 03 prices in JFY 04.

## Market Status

- Demand for the company's mainstream low volatile PCI product is exceptionally strong.

  The majority of existing customers are seeking to expand their use of low volatile PCI coal and a substantial new customer has emerged.

  As a consequence, Australian Premium Coals (APC), the Manager of the Coppabella and Moorvale Joint Venture, has requests for approximately 7 million tonnes of its PCI product, well above the installed production capacity of the two mines.

## Initiatives

- Macarthur Coal proposes to increase production in line with market demand by:

  (1) Expansion of Moorvale Mine production capacity to 2 Mtpa, which is within the limits of the existing infrastructure. The expansion will increase PCI coal capacity by approximately 300,000 tonnes per annum to a total of 1.3 Mtpa.

  (2) Increase ROM production at Coppabella using an additional contractor to:

    - Provide sufficient overall PCI coal capacity to overcome any shortfall from the principal contractor; and
    - Provide sufficient stock levels to optimise the blending of ROM coals.

    The increase will coincide with increased sales prices of Macarthur Coal's mainstream product.

  The combined Coppabella and Moorvale production capacity, through utilisation of the second contractor at Coppabella, is currently being determined.

  Completion of the TIC relocation will alleviate operational constraints applying to the Johnson Pit and provide access to higher quality coal in the South Pit from January 2004.

- The practical completion of the Moorvale Mine is Macarthur Coal's second achievement in developing a grass roots project to production. Exploration to facilitate organic growth of PCI coal projects remains a priority in response to increasing customer demand.

## SALES

*Summary*

| SALE OF COAL PRODUCED AT COPPABELLA & MOORVALE | | Actual - Quarter | | | Actual - Year to Date | | |
|---|---|---|---|---|---|---|---|
| | | Dec-03 000's | Dec-02 000's | % Var | Dec-03 000's | Dec-02 000's | % Var |
| Coppabella | Tonnes | 929.9 | 1,129.8 | -17.7% | 1,932.7 | 1,942.3 | -0.5% |
| Moorvale | Tonnes | 115.3 | - | 0.0% | 263.3 | - | 0.0% |
| Total | Tonnes | 1,045.2 | 1,129.8 | -7.5% | 2,196.0 | 1,942.3 | 13.1% |
| Macarthur Coal's entitlement | Tonnes | 766.1 | 564.9 | 35.6% | 1,609.6 | 971.1 | 65.7% |

*Sales*

Macarthur Coal's attributable sales have increased significantly on the corresponding 2002 quarter. The increase is principally due to the acquisition of an additional 23.3% interest in the Coppabella Mine with an effective date of 1 July 2003.

Commencement of mining at the Moorvale Mine also positively impacted quarterly sales. However, the early coal processed at the Moorvale coal preparation plant was thermal coal.

Sales from the Coppabella Mine were adversely affected by a quarterly production shortfall, as detailed above.

Price negotiations commence in the March 2004 quarter for JFY 04, which begins 1 April 2004. World steel production growth coupled with the tightening of coking coal supplies provide favourable market conditions for PCI coal price negotiations. Price increases are anticipated. However, the benefit of the increases is likely to be deferred due to the carryover of contract tonnage at current JFY year prices into April 2004.

*Shipping*

Demurrage was incurred on 74% of shipments. The abnormal increase in the incidence of demurrage is due to:

- Congestion at the Dalrymple Bay Coal Terminal caused by production shortfalls at a number of coking coal mines which export from the port;
- The production shortfall at Coppabella; and
- Higher demurrage charges resulting from increasing freight rates in response to reduced availability of ships to service the increased seaborne bulk materials trade.

The Company's ability to respond to port congestion was hindered by limited stockpile space at the port.

Management is endeavouring to match the shipping programme with periods of reduced congestion as a matter of priority.

## COPPABELLA COAL MINE (MCC 73.3%)

| OPERATIONS - COPPABELLA COAL MINE | | Actual - Quarter | | | Actual - Year to Date | | |
|---|---|---|---|---|---|---|---|
| | | Dec-03 000's | Dec-02 000's | % Var | Dec-03 000's | Dec-02 000's | % Var |
| Overburden Removed | BCM | 10,047.0 | 11,201.9 | -10.3% | 19,815.0 | 23,141.7 | -14.4% |
| Run of Mine Coal Production | Tonnes | 1,248.5 | 1,364.7 | -8.5% | 2,484.5 | 2,760.9 | -10.0% |
| Washed Coal Production | Tonnes | 941.4 | 1,089.5 | -13.6% | 1,918.4 | 2,100.4 | -8.7% |
| Coal Sales (excl purchased coal) | Tonnes | 929.9 | 1,129.8 | -17.7% | 1,932.7 | 1,942.3 | -0.5% |

*Production*

Quarterly and six monthly Coppabella Mine production was lower than the corresponding periods in 2002. Mining in the East Pit and resumption of mining in the Creek Pit reduced the impact of the Johnson Pit shortfall.

Heavy December rainfall also affected production, disrupting operations for 12 out of 29 available days.

The company is engaging a second contractor to overcome the shortfall. The production benefit is not expected to materialise until the new financial year.

Preparation of the South Pit for the commencement of mining is well advanced. The majority of overburden over the first block has been removed. Mining is expected to commence in January 2004.

The higher quality coal in the South Pit provides opportunities to improve production flexibility.

*Water*

Coppabella received 281 mm of rain in December, approximately three times the December average for the Nebo district for the past 50 years.

Rainfall substantially replenished onsite dams and enabled the reconnection of the rejects co-disposal system that was disconnected to conserve water during the earlier part of the quarter.

*New Markets*

A trial cargo of ultra low volatile coal (ULV) was shipped in October and the initial test work was successful. Additional trial cargo orders have been received from other steel mills.

A feasibility study into the expansion of the Coppabella Mine by up to one million tonnes to accommodate the production of ULV is progressing. The study will be completed in the June 2004 quarter.

*Transport Infrastructure Corridor (TIC)*

Relocation of the TIC was completed on time. The new infrastructure is fully operational with the first train travelling along the new track on 17 December 2003.

Removal of the old rail system is due for completion ahead of the April 2004 target. One section of the old rail system was removed immediately after 17 December to allow the haul road to the South Pit to be completed.

## MOORVALE COAL MINE (MCC 73.3%)

| OPERATIONS - MOORVALE COAL MINE | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Actual - Quarter | | | Actual - Year to Date | | |
| | | Dec-03 | Dec-02 | % Var | Dec-03 | Dec-02 | % Var |
| | | 000's | 000's | | 000's | 000's | |
| Overburden Removed | BCM | 1,447.4 | - | | 2,992.3 | - | |
| Run of Mine Coal Production | Tonnes | 411.0 | - | | 823.7 | - | |
| Washed Coal Production | Tonnes | 267.4 | - | | 419.7 | - | |
| Coal Sales | Tonnes | 115.3 | - | | 263.3 | - | |

*Operations*

Moorvale has commenced operating on a stand alone basis. The sales target has been increased from 0.75 million tonnes to 1 million tonnes for the 2004 financial year as a consequence of the successful start of the Moorvale operations.

The initial commissioning phase commenced in November utilising thermal coal stockpiled during 2003. A thermal coal product was produced for two shipments scheduled for January 2004. PCI coal production commenced in late December.

Loading of trains commenced ahead of schedule on 6 December. Electric trains will replace diesel trains when electrification of the rail spur and loop is completed in January 2004.

*Construction*

All capital works have been completed, with the exception of electrification of the rail spur and loop and completion testing of the coal preparation plant. Completion of the capital works was achieved within 13 months of the granting of the mining lease. The final construction cost is expected to be $1 million below budget.

Moorvale was initially commissioned using diesel generators. Connection to the grid occurred on 22 December 2003.

## MONTO COAL PROJECT (MCC 51%)

Development works remain suspended due to unfavourable coal market conditions which are currently influenced by the rise of the Australian dollar relative to the United States dollar. Project development will not commence until export market conditions improve sufficiently to ensure sustainable profitability.

## EXPLORATION TENEMENTS

*Olive Downs*

A further portion of the Indicated Resources at Olive Down has been upgraded to Measured status. Additionally, Inferred Resources have been increased with the addition of ultra low volatile coal at Olive Downs North. A revised resource table is provided below.

| | Resources | | | |
|---|---|---|---|---|
| | Measured M tonnes | Indicated M tonnes | Inferred M tonnes | Total M tonnes |
| Olive Downs | | | | |
| North - open cut | 13.0 | 5.9 | 7.0 | 25.9 |
| South - open cut | 13.0 | 2.6 | 0.4 | 16.0 |
| Underground | - | 268.0 | - | 268.0 |
| **Total** | **26.0** | **276.5** | **7.4** | **309.9** |

*Other*

Exploration activity concentrated on desktop evaluation of new seismic, drilling, aeromagnetic and other data. Field work focussed on field mapping.

The company has confirmed the existence of shallow coal measures adjacent to Xstrata's Rolleston Project through the scout drilling and testing program carried out in EPC 786 (Freitag Creek). As a consequence, Macarthur Coal has applied for a tenement (EPC 781) adjacent to EPC 786.

*The information in this report that relates to Mineral Resources at Olive Downs is derived in part 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 director of JB Mining Services Pty Ltd (ABN 99 050 708 596). Lance Grimstone, BSc (Hon) Geol, Grad Dipl Mngt, FAusIMM, CPGeo, MMICA, is a director of Lance Grimstone & Associates Pty Ltd (ABN 67 010 508 531).*

*Both Mr Jones and Mr Grimstone have sufficient experience which is 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.*

## EXPLORATION EXPENDITURE

Exploration expenditure for the December 2003 quarter was $338,700.

## OTHER ISSUES

*Management Changes*

Bruce Denney commenced as Chief Operating Officer for Macarthur Coal and General Manager of APC in October 2003. Bruce has over 25 years experience in the coal industry and held several senior management positions.

Subsequent to the December 2003 quarter, Gary Lee and Ken Carnes transferred from AMCI to APC following AMCI selling its Coppabella and Moorvale joint venture interests. The transfer allows APC to take responsibility for provision of marketing and marketing coordination services formerly provided by AMCI.

Gary Lee, General Manager Marketing, is responsible for marketing in Europe and South America. Ken Carnes, Director Marketing, is responsible for marketing in Asia.

### *Financial*

*Foreign Exchange Contracts*

The value of foreign exchange contracts held at 31 December 2003 was:

| Period covered by FX Hedge Contracts | US dollar value | FX rate A$1.00 = US$ | % of Revenues hedged by FX contracts[1] | A$ Unrealised gain based on A$:US$ spot rate of $0.749[2] |
|---|---|---|---|---|
| Jan 04 to Dec 04 | 96,284,000 | 0.593 | 64% | 35,624,000 |
| Jan 05 to Dec 05 | 58,262,000 | 0.596 | 39% | 20,828,000 |
| Jan 06 to Dec 06 | 8,150,000 | 0.558 | 5% | 3,731,000 |
| **Total** | **162,696,000** | **0.592** | **36%** | **60,183,000** |

1 Based on current USD coal price
2 US$ spot rate as at 31December 2003

*Acquisition of additional interests in Coppabella and Moorvale Joint Ventures*

The purchase of joint venture interests from AMCI and the unification of the Coppabella and Moorvale joint ventures were successfully completed in December. The new joint venture interests in the Coppabella and Moorvale Joint Venture are:

- Macarthur Coal 73.3%
- CITIC 7.0%
- Marubeni 7.0%
- Nissho Iwai 7.0%
- Kawasho 3.7%
- Nippon Steel Trading 2.0%

Macarthur Coal's 73.3% joint venture interest involved the purchase of a 23.3% interest in Coppabella from AMCI and the sale of a 3.7% interest in Moorvale to one of the continuing joint venture participants.

Macarthur Coal's production entitlement increases by approximately 1 million tonnes per annum as a consequence of the acquisition, bringing the total production entitlement to 4.25 million tonnes per annum.

The total purchase price applicable to Macarthur Coal was $48.2 million, comprising:

| | A$ million |
|---|---|
| Total Purchase Price | 48.20 |
| Less 10 Year Purchase Agreement | 15.53 |
| Less assumption of net debt | 1.85 |
| Less Hedging Premium Adjustment | 11.85 |
| Amount payable | 18.97 |
| Add Interest | 0.43 |
| **Net Payment on Settlement** | 19.40 |

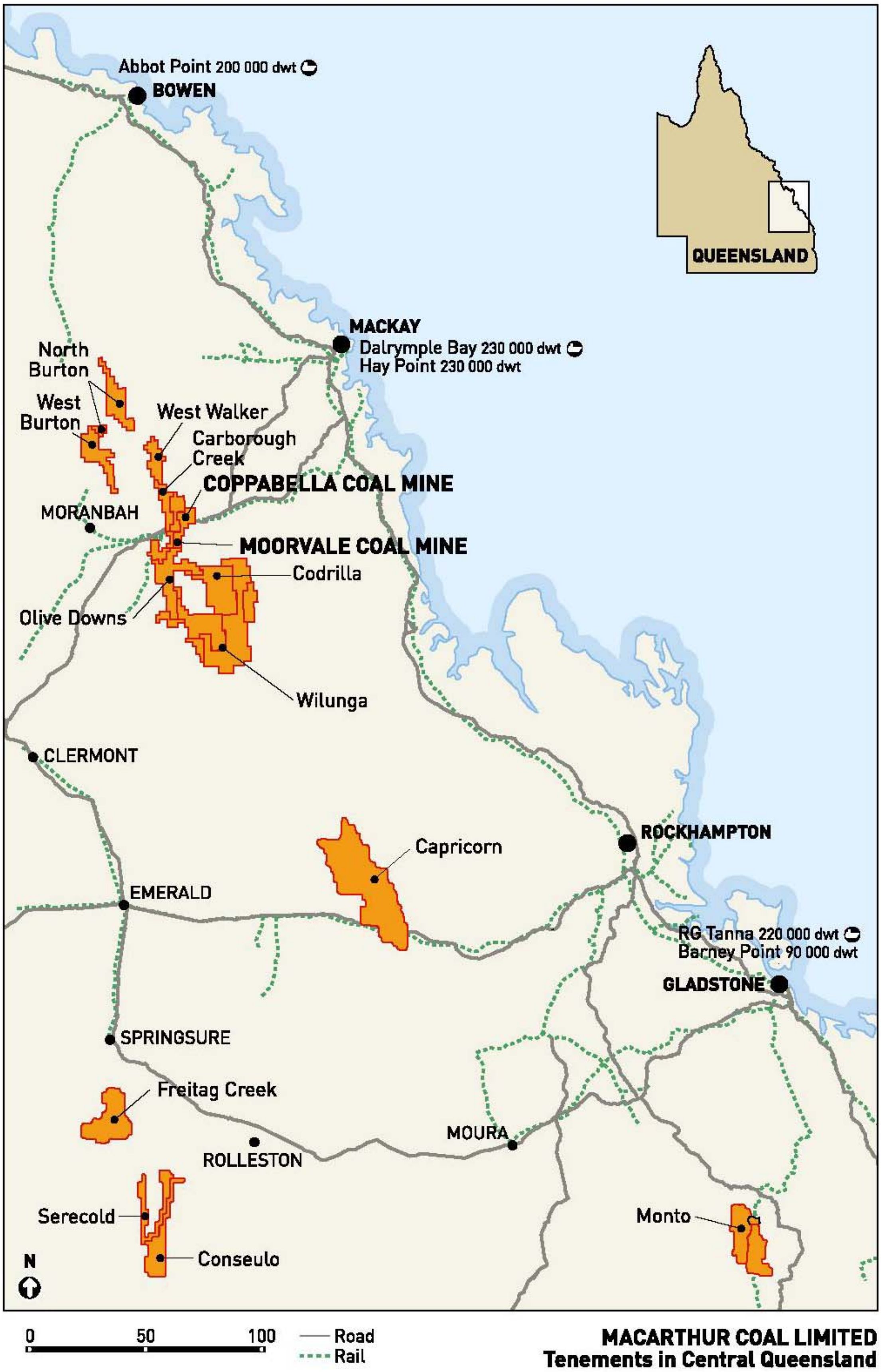
*Cost Reductions*

The Coppabella and Moorvale coal preparation contracts are being renegotiated. Joint venture unification provides a basis for obtaining favourable revised terms. Price reductions of 16% and 3% respectively for Coppabella and Moorvale, effective 1 January 2004, are anticipated.

Terms of the rail transport agreements for Coppabella and Moorvale are being amended. Changes include total freight charge reductions of approximately 18% and 14% respectively, phased in over the period from 1 July 2004 to January 2007.

**MACARTHUR COAL LIMITED**
**December 2003 Quarterly Report**

## LOCATION OF COAL TENEMENTS



## CORPORATE INFORMATION

**Directors**

| | |
|---|---|
| Hon. Keith De Lacy | Chairman |
| Roger Marshall, OBE | Deputy Chairman |
| Ken Talbot | Managing Director & Chief Executive Officer |
| Don Nissen | Director |
| Peter Forbes | Director |

**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

**Substantial Shareholders**

| Name | % of Issued Shares |
|---|---|
| MDA Investments Pty Ltd | 43.8 |
| CITIC Australia Coal Pty Ltd | 14.0 |
| Asset Value Investors Ltd | 5.6 |
| MDA International Pty Ltd | 5.1 |

**ASX Code**
Ordinary shares: MCC
Convertible notes: MCCG

**Contacts**

Ken Talbot
Managing Director and CEO
Macarthur Coal Limited
Tel: 07 3221 7210

Shane Stephan
General Manager – Investor Relations & Business Development
Macarthur Coal Limited
Tel: 07 3221 7210

or visit the website: www.macarthurcoal.com.au