

# Macarthur Coal

## December 2003 Quarter Progress Report



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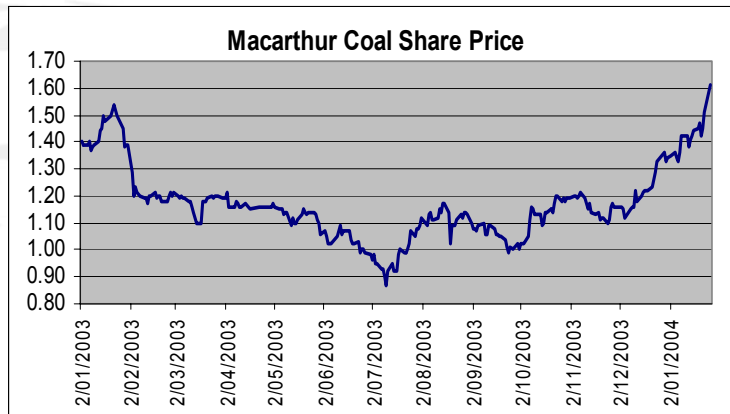
# Macarthur Coal Profile

- ◆ IPO: 5 July 2001
- ◆ Shares currently: \$1.60
- ◆ Current market capitalisation: \$205 million
- ◆ Pure coal mine operator and developer
- ◆ Strong joint venture and customer relationships
- ◆ Priority is to develop open-cut resources into new mines in high growth, niche markets
- ◆ Leader in supply of low volatile PCI coal



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# Macarthur Coal Profile



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## Overview

### Operations

- ◆ Moorvale development is complete. 2004 production target upgraded from 0.75 Mt to 1 Mt
- ◆ Total Coppabella and Moorvale LV PCI production capacity is 5 Mtpa plus an additional 0.8 Mtpa
- ◆ Disappointing first six month production performance from Coppabella:
  - ◆ Mining operations geographically constrained in Johnson Pit
  - ◆ Coal availability delayed due to a drill and blast failure in first quarter
  - ◆ Wet weather delays in December
  - ◆ Production shortfall for the year may be 0.2 Mt
  - ◆ Carry over tonnage from the 03 Japanese Financial Year (JFY) to the 04 JFY likely



## Overview

### Market Status

- ◆ Demand for LV PCI is exceptionally strong
- ◆ Coppabella and Moorvale JV has requests for 7 Mt of PCI product, well above production capacity

### Improvement Initiatives

- ◆ Expansion of Moorvale Mine production capacity to 2 Mtpa
  - ◆ No capital investment necessary - move to full 7 day week operations
  - ◆ Increase Moorvale PCI capacity by 0.3Mtpa to 1.3Mtpa
- ◆ Additional contractor to be implemented at Coppabella
  - ◆ Overcome shortfall from principle contractor
  - ◆ Provide sufficient stockpiles to optimise blending of ROM to improve yields
- ◆ Completion of TIC and opening of the South Pit to alleviate operational constraints in time



## Sales

SALE OF COAL PRODUCED AT COPPABELLA & MOORVALE							
		Actual - Quarter			Actual - Year to Date		
		Dec-03	Dec-02	% Var	Dec-03	Dec-02	% Var
		000's	000's		000's	000's	
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%
<b>Total</b>	<b>Tonnes</b>	<b>1,045.2</b>	<b>1,129.8</b>	<b>-7.5%</b>	<b>2,196.0</b>	<b>1,942.3</b>	<b>13.1%</b>
Macarthur Coal's entitlement	Tonnes	766.1	564.9	35.6%	1,609.6	971.1	65.7%

- ◆ Macarthur Coal attributable quarterly sales up 35.6%
- ◆ Favorable environment for significant price increases
- ◆ Demurrage was incurred on 74% of shipments as a result of:
  - ◆ Congestion at Dalrymple Bay Coal Terminal, caused by production shortfalls at a number of coking coal mines
  - ◆ Production shortfall at Coppabella
  - ◆ Higher demurrage charges resulting from increasing freight rates



## Operations - Coppabella Mine

OPERATIONS - COPPABELLA 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	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%

- ◆ There was a shortfall of coal produced from Johnson Pit due to:
  - ◆ December rainfall disrupting operations for 12 days
  - ◆ Delays by the principal contractor in recovery from a failed overburden blast in first quarter
  - ◆ Mining of lower yielding coals from the northern area of Johnson pit due to geographic limitations
- ◆ Engagement of a second contractor will provide operational flexibility
- ◆ Coppabella received 281mm of rain in December, 3 times average. Onsite dams are now replenished and the rejects co-disposal system reconnected
- ◆ ULV feasibility ongoing and further trial cargo orders received
- ◆ TIC relocation completed on time – first train on new railway line 17/12/03



## Moorvale Mine

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	4110	-		823.7	-	
Washed Coal Production	Tonnes	267.4	-		419.7	-	
Coal Sales	Tonnes	115.3	-		263.3	-	

- ◆ Moorvale commenced operations on a stand alone basis
- ◆ Construction completed within schedule and final construction cost expected to be \$1m below \$67m budget
- ◆ Sales target has increased from 0.75Mt to 1.0Mt for 2004 financial year
- ◆ Production capacity increased to 2 Mtpa - 1.3Mtpa of PCI coal through introduction of full 7 day week operations
- ◆ No additional capital necessary to increase production to 2 Mtpa
- ◆ Initial production and sales from Moorvale were of thermal coal. PCI production started in late December



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## Hedge Position at 31 December 2003

Period covered by FX Hedge Contracts	US dollar value	FX rate A\$1.00 = US\$	% of Revenues hedged by FX contracts <sup>1</sup>	A\$ Unrealised gain based on A\$:US\$ spot rate of \$0.749 <sup>2</sup>
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
<b>Total</b>	<b>162,696,000</b>	<b>0.592</b>	<b>36%</b>	<b>60,183,000</b>

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



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## Management Changes

- ◆ Bruce Denney commenced as Chief Operating Officer of Macarthur Coal and General Manager Australian Premium Coals, the joint venture operating company  
  
Bruce has 25 years experience in the coal industry including senior positions with ARCO, Thiess and MIM
- ◆ Following the acquisition of AMCI's interests in the joint venture, two senior former AMCI coal marketers transferred to Australian Premium Coals
  - ◆ Gary Lee has been appointed General Manager Marketing with responsibility for marketing in Europe and South America
  - ◆ Ken Carnes has been appointed Director Marketing with responsibility for marketing in Asia



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## AMCI Acquisition

- ◆ Macarthur Coal has acquired an additional 23.3% interest in Coppabella from AMCI
- ◆ The Coppabella and Moorvale joint ventures have been unified into a single joint venture. Generated savings expected to be up to \$4m per annum

	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
<b>Net Payable on settlement</b>	<b>19.40</b>



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## Joint Venture Unification - Cost Reductions

- ◆ The Coppabella and Moorvale joint ventures were unified concurrently with the AMCI exit. Ownership interests are:

Joint Venture Participant	Joint Venture Interest
Macarthur Coal	73.3%
CITIC	7.0%
Marubeni	7.0%
Nissho Iwai	7.0%
Kawasho	3.7%
Nippon Steel Trading	2.0%

- ◆ Coal Preparation Plant operating contracts are being renegotiated. 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 reductions of approximately 18% and 14% respectively for Coppabella and Moorvale to occur progressively over a three year period from 1 July 2004



## Exploration

### Olive Downs Project

- ◆ Upgrading of a portion of indicated resources to measured status
  - ◆ Total opencut measured resource = 26.0 Mt
  - ◆ Total opencut measured and indicated resource = 34.5 Mt

### EPC 786 (Freitag Creek)

- ◆ Presence of shallow coal measures confirmed adjacent to Xstrata's Rolleston Project
- ◆ Macarthur Coal has applied for EPC 781 adjacent to EPC 786





## Conclusions

- ✓ Operational reliability improving
- ✓ Strong hedge book – securing profitability in volatile exchange rate environment
- ✓ Proven ability to deliver production growth
- ✓ Achieved two-mine company objective in December 2003
- ✓ Strong worldwide demand for low volatile PCI coal
- ✓ **Continued profitable growth is the company priority**