



**ABN 40 096 001 955  
and its Controlled Entities**

Half-Year Financial Report  
31 December 2003

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## Macarthur Coal Limited and its Controlled Entities

### Directors' Report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2003 and the review report thereon.

#### **Directors**

The directors of the Company at any time during or since the end of the half-year are:

<i>Name</i>	<i>Period of directorship</i>
Hon. Keith De Lacy Chairman Independent Director	Appointed 2 May 2001
Mr Roger Marshall OBE Deputy Chairman Non Executive Director	Appointed 2 May 2001
Mr Ken Talbot Managing Director/Chief Executive Officer Executive Director	Appointed 2 May 2001
Mr Don Nissen Independent Director	Appointed 2 May 2001
Mr Peter Forbes Independent Director	Appointed 14 November 2003

#### **Review of Operations**

##### *Overview*

##### Growth

Macarthur Coal achieved its two mine ownership objective with the addition of the Moorvale Mine to its portfolio. The Moorvale Mine commenced commercial production of coal in December 2003 and production for the 2003/04 financial year is expected to be 1.5 million tonnes.

Ownership of the Coppabella Mine increased to 73.3%. The additional 23.3% interest was acquired from AMCI which sold its Coppabella and Moorvale Joint Venture interests in December 2003 with an effective date of 1 July 2003. Macarthur Coal also sold a 3.7% interest in the Moorvale Mine to another joint venture participant to enable joint venture unification to be achieved.

Macarthur Coal's attributable entitlement to Coppabella and Moorvale installed saleable coal production capacity is currently 4.25 million tonnes per annum (Mtpa).

The completion of the Moorvale Mine and acquisition of the additional Coppabella interests will allow Macarthur Coal to exceed its target of 10% per annum average compound sales growth for the third successive year.

##### Market Status

Demand for low volatile PCI coal is exceptionally strong due to world steel production growth primarily driven by the Chinese economy.

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

Australian Premium Coals Pty Ltd (APC), the Manager of the Coppabella and Moorvale Joint Venture, has requests for approximately 7 million tonnes of PCI coal, which is above the combined installed PCI coal production capacity of the Coppabella and Moorvale mines of approximately 5 Mtpa.

## Macarthur Coal Limited and its Controlled Entities

### Operations

Operational issues limited the performance of the Coppabella Mine during the half year to December 2003. Operational performance was affected by:

- >> Majority of mining being constrained to the Johnson Pit as the Transport Infrastructure Corridor (TIC) had not been relocated. Strip ratios increased as a result of deeper mining and yield was negatively impacted by the poorer quality coal in the northern section;
- >> Insufficient pit inventories and stockpiles to allow optimal blending of ROM coals to maximise yield;
- >> A drill and blast failure; and
- >> Wet weather.

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 the early part of JFY 04.

Macarthur Coal announced on 9 February 2004 that the production shortfall for the 2004 financial year may be as much as 350,000 tonnes due to operational issues.

### Initiatives

The following initiatives are being implemented to increase production:

- (1) Expansion of Moorvale Mine production capacity to 2 Mtpa, achievable within the limits of 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 of ROM production at Coppabella using an additional contractor to:
  - >> Provide sufficient overall PCI coal capacity to overcome any potential Johnson Pit shortfall; and
  - >> Provide sufficient stock levels to optimise the blending of ROM coals.

The increase will coincide with increased sales prices for low volatile PCI coal, Macarthur Coal's mainstream product.

Leighton Contractors Pty Ltd, the long term contractor at the Moorvale Mine, has been awarded a short term mining contract to supplement run of mine coal production. Peter Champion Mining is to be engaged on a long term basis to June 2008 as the second mining contractor at Coppabella, commencing in the latter part of the current financial year.

Attributable tonnage for Macarthur Coal will increase to the rate of 4.5 Mtpa in the 2004/05 financial year.

Completion of the new transport infrastructure corridor has alleviated operational constraints applying to the Johnson Pit. Access to higher quality coal in the South Pit was achieved in January 2004.

### Exploration

The practical completion of the development 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. Macarthur Coal is being encouraged by customers to identify the next PCI project in Australia. The company has secured an extensive tenement holding with a view to repeating past successes in identifying coal deposits of significant economic value.

Exploration expenditure for the six months ended 31 December 2003 was \$956,600.

## Macarthur Coal Limited and its Controlled Entities

### Sales

<b>SALE OF COAL PRODUCED AT COPPABELLA &amp; MOORVALE</b>				
Year to Date				
		<b>Dec-03</b>	<b>Dec-02</b>	<b>% Var</b>
		<b>000's</b>	<b>000's</b>	
Coppabella	Tonnes	1,932.7	1,942.3	-0.5%
Moorvale	Tonnes	263.3	-	0.0%
<b>Total</b>	Tonnes	<b>2,196.0</b>	<b>1,942.3</b>	<b>13.1%</b>
Macarthur Coal's entitlement	Tonnes	1,609.6	971.1	65.7%

Macarthur Coal's attributable sales have increased significantly in relation to the corresponding 2002 period. 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 sales for the six months to December 2003. However, the majority of coal processed at the Moorvale coal preparation plant was thermal coal.

Sales from the Coppabella Mine were adversely affected by the production shortfall detailed above.

Demurrage increased to an abnormal level due to:

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

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

### *Coppabella Mine*

Coppabella Mine production for the half year was:

<b>OPERATIONS - COPPABELLA COAL MINE</b>				
Year to Date				
		<b>Dec-03</b>	<b>Dec-02</b>	<b>% Var</b>
		<b>000's</b>	<b>000's</b>	
Overburden Removed	BCM	19,815.0	23,141.7	-14.4%
Run of Mine Coal Production	Tonnes	2,484.5	2,760.9	-10.0%
Washed Coal Production	Tonnes	1,918.4	2,100.4	-8.7%
Coal Sales (excl purchased coal)	Tonnes	1,932.7	1,942.3	-0.5%

## Macarthur Coal Limited and its Controlled Entities

### Operations

Six monthly Coppabella Mine production was lower than the corresponding 2002 period due to operational difficulties.

Mining was constrained to the Johnson Pit by the TIC. Strip ratios increased as a result of deeper mining. Yield was negatively impacted by the mining of poorer quality coal in the north of the pit and pit inventories and stockpiles were insufficient to allow optimal blending of ROM coals to maximise yield.

A drill and blast failure further impacted production. The contractor was unable to reduce the shortfall and advised that the shortfall is likely to continue until June 2004.

Mining in the East Pit and resumption of mining in the Creek Pit mitigated the impact of the Johnson Pit shortfall. The company is engaging a second contractor to overcome the shortfall. The production benefit is not expected to materialise until the new financial year.

Mining in the South Pit commenced 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 2003, approximately three times the December average for the Nebo district during the past 50 years, enabling the reconnection of the rejects co-disposal system that was disconnected in October 2003 to conserve water.

### New Markets

A trial cargo of ultra low volatile coal (ULV) was shipped in October 2003 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 to accommodate the production of ULV/additional PCI coal is progressing. The study will be completed in the June 2004 quarter.

### Transport Infrastructure Corridor

Relocation of the TIC was completed on time. The new infrastructure became 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 2003 to allow the haul road to the South Pit to be completed.

### Moorvale Mine

Moorvale Mine production for the half year was:

<b>OPERATIONS - MOORVALE COAL MINE</b>				
<b>Year to Date</b>				
		<b>Dec-03</b>	<b>Dec-02</b>	<b>% Var</b>
		<b>000's</b>	<b>000's</b>	
Overburden Removed	BCM	2,992.3	-	
Run of Mine Coal Production	Tonnes	823.7	-	
Washed Coal Production	Tonnes	419.7	-	
Coal Sales	Tonnes	263.3	-	

## **Macarthur Coal Limited and its Controlled Entities**

### Operations

Moorvale has commenced operating on a stand alone basis. The sales target has been increased from 0.75 million tonnes to 1.5 million tonnes for the 2004 financial year as a consequence of the successful start of Moorvale operations. The production target is 2 million tonnes for the 2004/05 financial year.

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

Loading of trains commenced ahead of schedule on 6 December 2003. Electric trains replaced diesel trains when electrification of the rail spur and loop was completed on 21 January 2004.

### Construction

All capital works were completed by December 2003, 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 was \$1 million below budget.

### ***Post Half Year End Events***

#### *Declaration of Force Majeure*

Coppabella operations were impacted by heavy rain in December 2003, January 2004 and early February 2004. Pit flooding prevented access to coal and necessitated the declaration of force majeure. Management is working with contractors and customers to minimise the impact of the interrupted production programme. Access to coal was achieved on 19 February 2004.

#### *Dalrymple Bay Coal Terminal Incident*

On the 15 February 2004 a reclaiming machine at Dalrymple Bay Coal Terminal (DBCT) derailed resulting in its boom collapsing. Prime Infrastructure announced on 23 February 2004 that the coal terminal is expected to be operating at about 40% of nameplate capacity for the two weeks commencing 23 February 2004, increasing to 50% for the four weeks thereafter. During this period, safety checks will be carried out on other machines, the derailed reclaiming machine removed, associated conveyor systems repaired and the terminal's stockyard reconfigured to maximise available capacity.

On removal of the reclaiming machine, repair of associated conveyors and reconfiguration of the terminal's stockyard, Prime Infrastructure expects the terminal capacity to be restored to approximately 95% of pre-incident capacity until the reclaiming machine is repaired or replaced.

The incident will affect Macarthur Coal's 2003/04 shipping program. If necessary, force majeure will be declared on customer contracts due to reduction in port capacity. Macarthur Coal will use its best endeavours to ensure that customer requirements are met.

Management has commenced evaluating alternative port facilities to supplement the shipping program. Queensland Rail has indicated its ability to accommodate the transport of coal from the Coppabella and Moorvale mines to other ports on a best endeavours basis. Additionally, Gladstone Port Authority has indicated that it could accommodate tonnages from Macarthur Coal.

The financial impact on Macarthur Coal will be disclosed to the market once the assessment has been completed.

### ***Interim Dividend***

Due to the impact of the DBCT incident being unknown and reduced half year profitability, the board of directors has decided not to declare an interim dividend.

**Macarthur Coal Limited and its Controlled Entities**

**Rounding Off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Brisbane 25 February 2004.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "Keith De Lacy". The signature is written in a cursive style with a prominent loop at the end.

**Keith De Lacy**  
Chairman

**Macarthur Coal Limited and its Controlled Entities**

**Statement of Financial Performance**

For the Half-Year Ended 31 December 2003

		<b>Consolidated</b>	
		<b>31 Dec 2003 \$'000</b>	<b>31 Dec 2002 \$'000</b>
	Note		
Revenue from coal sales		93,054	62,848
Cost of coal sold		(76,535)	(47,770)
Gross Profit		16,519	15,078
Other revenue from ordinary activities		1,814	768
Distribution expenses		(6,239)	(2,677)
Administration expenses		(2,442)	(1,671)
Other expenses from ordinary activities		(4,154)	(1,187)
Earnings before interest and tax		5,498	10,311
Borrowing costs		(5,509)	(1,440)
<b>(Loss)/profit from ordinary activities before related income tax (expense)/benefit</b>	4	(11)	8,871
Income tax (expense)/benefit relating to ordinary activities		(270)	(3,764)
<b>Net (loss)/profit</b>	8	(281)	5,107
Basic earnings per share	3	(0.22)¢	3.97¢
Diluted earnings per share	3	(0.22)¢	3.93¢

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.

**Statement of Financial Position**  
**As at 31 December 2003**

	Note	Consolidated	
		31 Dec 2003 \$'000	30 June 2003 \$'000
<b>Current assets</b>			
Cash assets		8,079	6,825
Receivables		23,179	16,602
Inventories		7,585	4,239
Current tax assets		3,929	-
Other financial assets		53,573	35,473
Other		38,292	25,102
<b>Total current assets</b>		<b>134,637</b>	<b>88,241</b>
<b>Non-current assets</b>			
Receivables		2,758	1,993
Other financial assets		23,708	19,147
Property, plant and equipment		195,699	134,122
Exploration, evaluation and development expenditure		34,519	62,654
Deferred tax assets		8,001	2,474
Other		4,637	5,503
<b>Total non-current assets</b>		<b>269,322</b>	<b>225,893</b>
<b>Total assets</b>		<b>403,959</b>	<b>314,134</b>
<b>Current liabilities</b>			
Payables		19,982	22,510
Interest-bearing liabilities		35,157	6,372
Current tax liabilities		-	1,248
Provisions		2,101	1,180
Other financial liabilities		2,097	1,002
Other		36,405	30,702
<b>Total current liabilities</b>		<b>95,742</b>	<b>63,014</b>
<b>Non-current liabilities</b>			
Payables		10,000	10,000
Interest-bearing liabilities		93,101	57,415
Deferred tax liabilities		16,507	11,886
Provisions		6,464	4,340
Other financial liabilities		14,552	6,184
Other		30,211	22,372
<b>Total non-current liabilities</b>		<b>170,835</b>	<b>112,197</b>
<b>Total liabilities</b>		<b>266,577</b>	<b>175,211</b>
<b>Net Assets</b>		<b>137,382</b>	<b>138,923</b>
<b>Equity</b>			
Contributed equity	7	125,008	124,982
Retained profits	8	12,374	13,941
<b>Total Equity</b>	10	<b>137,382</b>	<b>138,923</b>

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.

**Statement of Cash Flows**

For the Half-Year Ended 31 December 2003

	<b>Consolidated</b>	
	<b>31 Dec 2003 \$'000</b>	<b>31 Dec 2002 \$'000</b>
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	96,103	57,516
Cash payments in the course of operations	(93,476)	(53,887)
Interest received	287	249
Borrowing costs paid	(3,215)	(2,905)
Income taxes paid	(5,768)	(590)
<b>Net cash provided by/(used in) operating activities</b>	<b>(6,069)</b>	<b>383</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(15,407)	(13,284)
Payments for acquisition of joint venture interests and related assets (net of cash)	(19,637)	(11,267)
Proceeds from disposal of joint venture interests and related assets (net of cash)	1,404	-
Payments for exploration, evaluation and development expenditure	(1,393)	(7,799)
Proceeds from other financial assets	(11,506)	(3,613)
<b>Net cash used in investing activities</b>	<b>(46,539)</b>	<b>(35,963)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings		
>> Convertible notes	-	30,000
>> Other	83,239	19,382
Repayment of borrowings	(31,915)	(19,614)
Proceeds from other financial liabilities	5,097	3,206
Repayment of other financial liabilities	(1,273)	-
Dividends paid	(1,286)	(4,113)
<b>Net cash provided by financing activities</b>	<b>53,862</b>	<b>28,861</b>
<b>Net increase/(decrease) in cash held</b>	<b>1,254</b>	<b>(6,719)</b>
<b>Cash at the beginning of the financial period</b>	<b>6,825</b>	<b>13,923</b>
<b>Cash at the end of the financial period</b>	<b>8,079</b>	<b>7,204</b>

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 10 to 14.

**Notes to the Financial Statements  
For the Half-Year Ended 31 December 2003**

**1 Statement of Significant Accounting Policies**

**Basis of Preparation of Half-year Financial Report**

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2003 Annual Financial Report and any public announcements by Macarthur Coal Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 30 June 2003 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

**2 Changes in Accounting Policy**

There are no changes in accounting policy for the half-year ended 31 December 2003.

**3 Earnings per Share**

	<b>Consolidated</b>	
	<b>31 Dec 2003 \$'000</b>	<b>31 Dec 2002 \$'000</b>
Earnings used as the numerator in calculating earnings per share (basic and diluted earnings per share):		
Net (loss)/profit	(281)	5,107
Weighted average number of shares used as the denominator:		
Number for basic earnings per share – Ordinary shares	128,579,162	128,544,064
Number for diluted earnings per share		
>> Ordinary shares	128,579,162	128,544,064
>> Effect of directors' and executive share options on issue	1,200,000	1,320,000
	129,779,162	129,864,064
On 31 December 2003 18,000 convertible notes were converted to ordinary shares. The basic EPS calculation includes these notes converted to shares (2002: Nil).		
During the period no options were converted to ordinary shares.		
The following convertible notes and options issued have not been included in the calculation of diluted EPS as they are not dilutive:		
>> Convertible notes	20,636,660	20,689,660
>> Directors' Option Plan	300,000	300,000
>> Executive Option Plan	300,000	360,000
	21,236,660	21,349,660

**4 Individually Significant Items**

	<b>Consolidated</b>	
	<b>31 Dec 2003 \$'000</b>	<b>31 Dec 2002 \$'000</b>
Borrowing costs written off	1,912	-

**Notes to the Financial Statements  
For the Half-Year Ended 31 December 2003**

**5 Revision of Accounting Estimate**

**Restatement of Economic Reserves**

Economic recoverable reserves for Coppabella project have increased from 92,300,000 (Macarthur Coal Limited share: 67,655,900) tonnes on 1 July 2003 to 107,100,000 tonnes (Macarthur Coal Limited share: 78,504,300). The effect of this revision reduces amortisation expense by approximately \$300,000 for the half-year ended 31 December 2003.

**Restatement of Useful Life of Fixed Assets**

The useful life of the Coal Handling and Preparation Plant and Rail Infrastructure of the Coppabella mine has been revised to 30 June 2019, which more accurately reflects the life of the mine due to the restatement of economic recoverable reserves. The effect of this revision reduces depreciation expense by approximately \$119,000 for the half-year ended 31 December 2003.

**6 Segment Reporting**

<b>Business segments</b>	<b>Coppa- bella \$'000</b>	<b>Moor- vale \$'000</b>	<b>Monto \$'000</b>	<b>Explor- ation \$'000</b>	<b>Other \$'000</b>	<b>Elimin- ations \$'000</b>	<b>Consol- idated \$'000</b>
<b>31 December 2003</b>							
External revenue	83,714	11,070	-	-	84	-	94,868
Inter-segment revenue	-	-	-	-	4,013	(4,013)	-
<b>Segment revenue</b>	<b>83,714</b>	<b>11,070</b>	<b>-</b>	<b>-</b>	<b>4,097</b>	<b>(4,013)</b>	<b>94,868</b>
Unallocated revenue and expenses							-
<b>Total revenue</b>							<b>94,868</b>
<b>Result</b>							
Segment result	4,832	(5,642)	(715)	(353)	477	1,390	(11)
Unallocated revenues and expenses							-
<b>(Loss)/profit from ordinary activities before related income tax expense</b>							<b>(11)</b>
<b>31 December 2002</b>							
External revenue	63,247	-	224	-	145	-	63,616
Inter-segment revenue	-	-	-	-	5,896	(5,896)	-
<b>Segment revenue</b>	<b>63,247</b>	<b>-</b>	<b>224</b>	<b>-</b>	<b>6,041</b>	<b>(5,896)</b>	<b>63,616</b>
Unallocated revenue and expenses							-
<b>Total revenue</b>							<b>63,616</b>
<b>Result</b>							
Segment result	10,166	(329)	(364)	(122)	3,866	(4,346)	8,871
Unallocated revenues and expenses							-
<b>Profit from ordinary activities before related income tax expense</b>							<b>8,871</b>

**Macarthur Coal Limited and its Controlled Entities**

**Notes to the Financial Statements  
For the Half-Year Ended 31 December 2003**

**7 Contributed Equity**

<b>Consolidated</b>	
<b>31 Dec 2003 \$'000</b>	<b>30 June 2003 \$'000</b>

**Issued and paid-up capital**

128,597,064 (30 June 2003: 128,579,064) ordinary shares, fully paid

125,008	124,982
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On 31 December 2003, 18,000 convertible notes were converted to ordinary shares.

No options expired during the half-year, or prior year.

**8 Retained Profits**

<b>Consolidated</b>	
<b>31 Dec 2003 \$'000</b>	<b>31 Dec 2002 \$'000</b>

Retained profits at the beginning of the half-year

Net (loss)/profit

Dividends recognised during the half-year

Retained profits at the end of the half-year

13,941	11,268
(281)	5,107
(1,286)	(4,113)
<u>12,374</u>	<u>12,262</u>

**9 Dividends**

Dividends paid or provided for in the current and comparative periods by Macarthur Coal Limited are:

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Franked/ unfranked</b>	<b>Date of payment</b>
<b>2003</b>				
Final-ordinary	1.0	1,286	Franked	20 October 2003
<b>2002</b>				
Final-ordinary	3.2	4,113	Franked	18 October 2002

Franked dividends were franked at the tax rate of 30%.

**Notes to the Financial Statements  
For the Half-Year Ended 31 December 2003**

**10 Total Equity Reconciliation**

	<b>Consolidated</b>	
	<b>31 Dec 2003 \$'000</b>	<b>31 Dec 2002 \$'000</b>
Total equity at beginning of the half-year	138,923	136,199
Total changes in parent entity interest in equity recognised in statement of financial performance	(281)	5,107
Share issued: 18,000 convertible notes converted to ordinary shares	26	-
Transactions with owners as owners: Dividends	(1,286)	(4,113)
Total equity at end of the half-year	137,382	137,193

**11 Acquisition/Disposal of Interests in Joint Ventures**

On 1 July 2003 Coppabella Coal Pty Ltd, a controlled entity of the consolidated entity, acquired an additional 23.3% interest in the Coppabella Project and Moorvale Coal Pty Ltd, also a controlled entity of the consolidated entity, disposed of a 3.7% interest in the Moorvale Project. Following completion of these transactions, the Coppabella Joint Venture and Moorvale Joint Venture were unified to become one new joint venture, Coppabella and Moorvale Joint Venture. As part of the unification of the joint ventures, Moorvale Coal Pty Ltd transferred its remaining 73.3% interest in Moorvale Joint Venture to Coppabella Coal Pty Ltd, resulting in Coppabella Coal Pty Ltd owning 73.3% of the Coppabella and Moorvale Joint Venture.

**12 Associates**

<b>Name</b>	<b>Ownership interest (consolidated)</b>		<b>Share of net profits (Consolidated)</b>	
	31 Dec 2003 %	31 Dec 2002 %	31 Dec 2003 \$'000	31 Dec 2002 \$'000
Australian Premium Coals Pty Ltd	73.3	50	-	-
Bistrotel Pty Ltd	73.3	50	-	-

The carrying amount of investments in associated entities of 30 June 2003 is \$293 (2002: \$100). Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, Macarthur Coal Limited does not have control over these associated entities, and accordingly have not been consolidated. The impact of the results and operations of these associated entities is not material to the consolidated entity and accordingly have not been equity accounted.

**13 Contingent Liabilities and Contingent Assets**

Other than as set out below, there were no material changes in contingent liabilities or contingent assets since 30 June 2003.

Contingencies disclosed in the 30 June 2003 financial report relating to the Coppabella Project have increased by 23.3% due to the additional interest acquired in the Coppabella Project on 1 July 2003.

Contingencies disclosed in the 30 June 2003 financial report relating to the Moorvale Project have reduced by 4.805% due to the disposal of 3.7% interest in the Moorvale Project on 1 July 2003 (77% interest previously held in the Moorvale Project).

**Litigation**

On the 19 December 2003, Australian Premium Coals Pty Ltd, an associate of the consolidated entity and manager of the Coppabella and Moorvale Joint Venture, lodged a Notice of Dispute with a contractor under the terms of the mining contract on behalf of the Joint Venture Participants. The directors are not in a position to quantify the claim at this time as the negotiations over the claim are at an early stage.

A contractor's claim for \$707,000 is also in dispute. Australian Premium Coals Pty Ltd, an associate of the consolidated entity and manager of the Coppabella and Moorvale Joint Venture, is in negotiations with the contractor on behalf of the Joint Venture Participants. The directors believe that no provision is required.

**Notes to the Financial Statements  
For the Half-Year Ended 31 December 2003**

**13 Contingent Liabilities and Contingent Assets (continued)**

**Income Tax Benefit**

The 2003 Income Tax Return for the Macarthur Coal Group is currently being finalised with respect to the uplift in tax values for the group under tax consolidation. As the income tax benefit has not yet been quantified, no amount has been recognised as a deferred tax asset for such in the half-year financial report.

In the directors' opinion, disclosure of any further information in relation to the above matters would be prejudicial to the interests of the Company.

**14 Subsequent events**

**International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005 Macarthur Coal Limited must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

Management is in the initial stages of assessing potential differences between Australian GAAP and IFRS that may have a significant impact on the financial position and financial performance of Macarthur Coal Limited. Accordingly, no attempt has been made to identify measurement, disclosure, presentation or classification differences under IFRS that would affect the manner in which transactions or events are presented in this report.

**Macarthur Coal Limited**

**Directors' Declaration**

In the opinion of the directors of Macarthur Coal Limited ("the Company"):

- 1 the financial statements and notes set out on pages 7 to 14, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2003 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- 2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Brisbane 25 February 2004.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "Keith De Lacy". The signature is written in a cursive, flowing style.

**Keith De Lacy**  
Chairman

## Independent Review Report to the Members of Macarthur Coal Limited

### Scope

#### *The Financial Report and Directors' Responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes (1 to 14) to the financial statements, and the directors' declaration (set out on pages 7 to 15) for the Macarthur Coal Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2003. The Consolidated Entity comprises Macarthur Coal Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Review Approach*

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- >> enquiries of company personnel; and
- >> analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

### Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

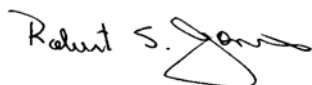
### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Macarthur Coal Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

**KPMG**



**Robert S Jones**  
Partner

Brisbane  
25 February 2004