

December Quarter Report

MACARTHUR COAL
LIMITED

December 2006 Quarter Progress Report

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February 2007

A leading independent Australian coal company

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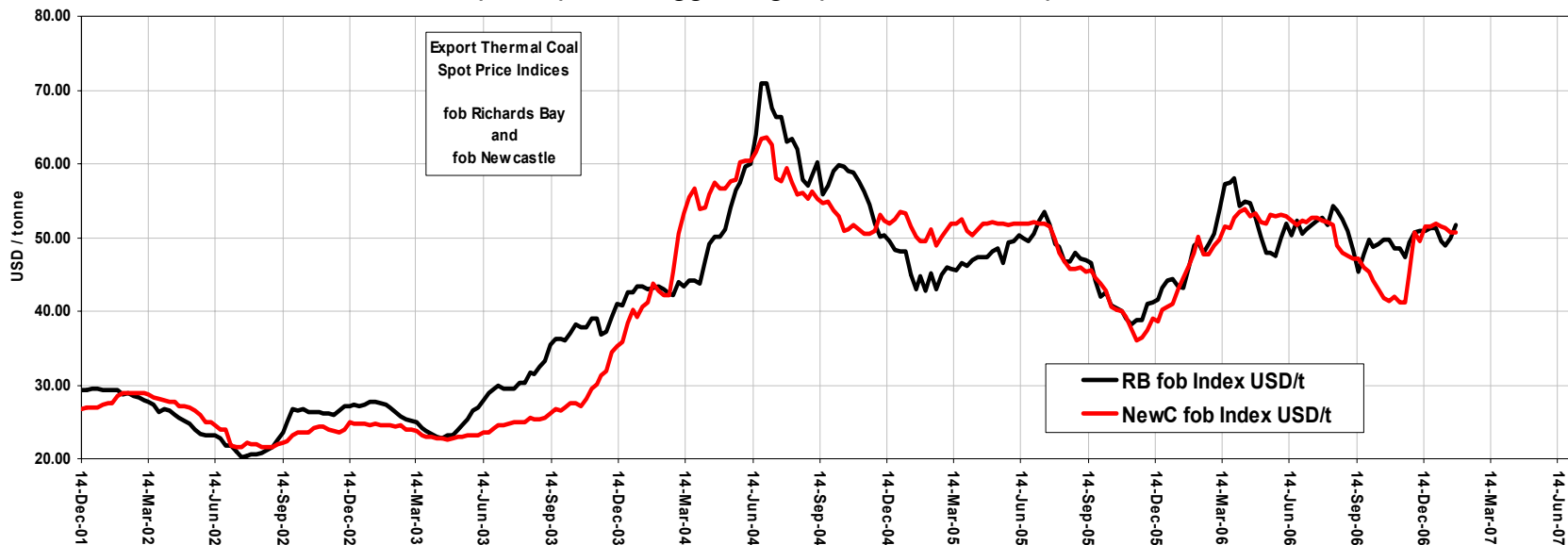
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Highlights

- **Sales of 1.1Mt of coal for the quarter**
- **The price of Low Volatile PCI coal for the next year has been agreed with a number of customers**
- **Overburden removal continued to improve at Coppabella**
- **Macarthur Coal achieved owner operator status in the East Pit area of Coppabella in December**
- **Macarthur Coal has entered into a three year tyre supply contract with a major East European tyre supplier and manufacturer**
- **The company has completed an equipment finance facility that provides sufficient funding for the move to owner operator**

Coal Markets

- Hard coking coal prices declined by US\$18/t to US\$98/t following early settlements between BHP Billiton and the major Japanese steel mills
- Lower quality coking coal prices have fallen further and there is now much more differentiation between the various metallurgical coal types
- Some low volatile PCI coals have been settled at prices similar to last years outcome according to press reports and demand remains quite strong
- The thermal coal price remains to be settled however spot prices have been rising steadily since the low of October 2006 with some participants suggesting a price increase is possible

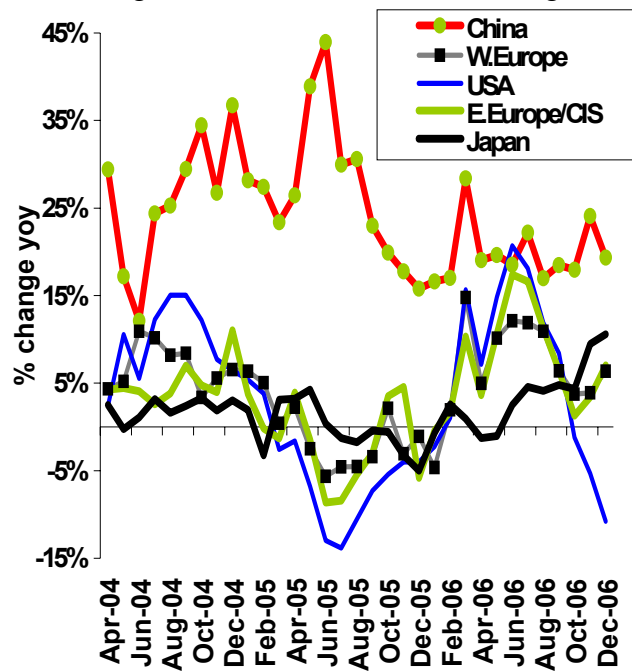


Source: Wilson HTM

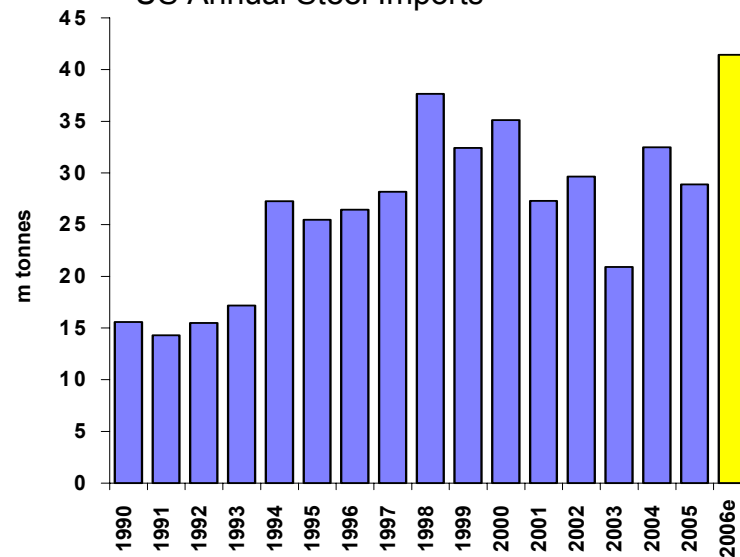
Steel Markets

- World steel production grew by 9.1% to 1.25Bt in 2006 and continues to grow in all regions except the US where the producers have cut production in an effort to support the price
- Chinese steel exports continue to grow strongly and reached about 33Mt in 2006 and may pose a risk to the world industry if the rate of increase is maintained into the future

Regional Steel Production Changes



US Annual Steel Imports

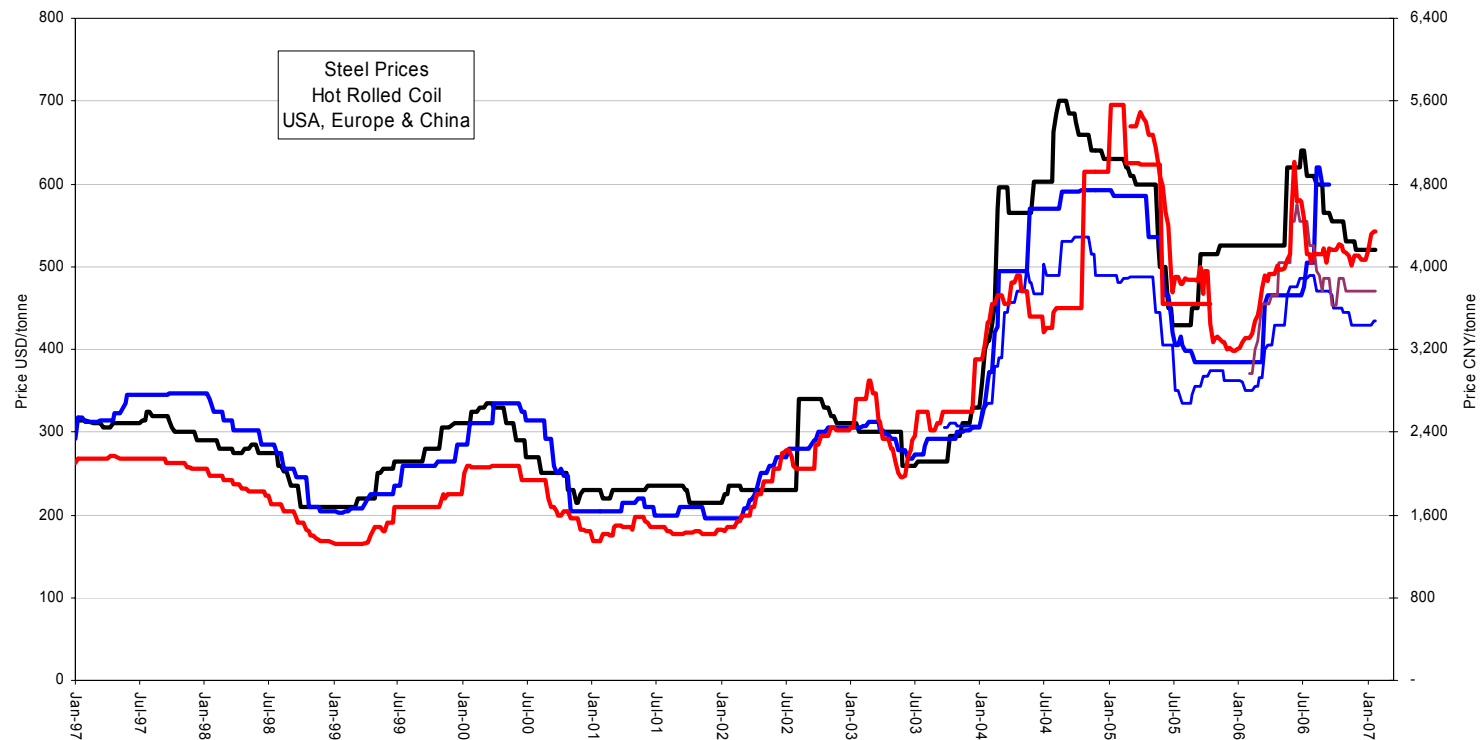


Source: Macquarie Bank

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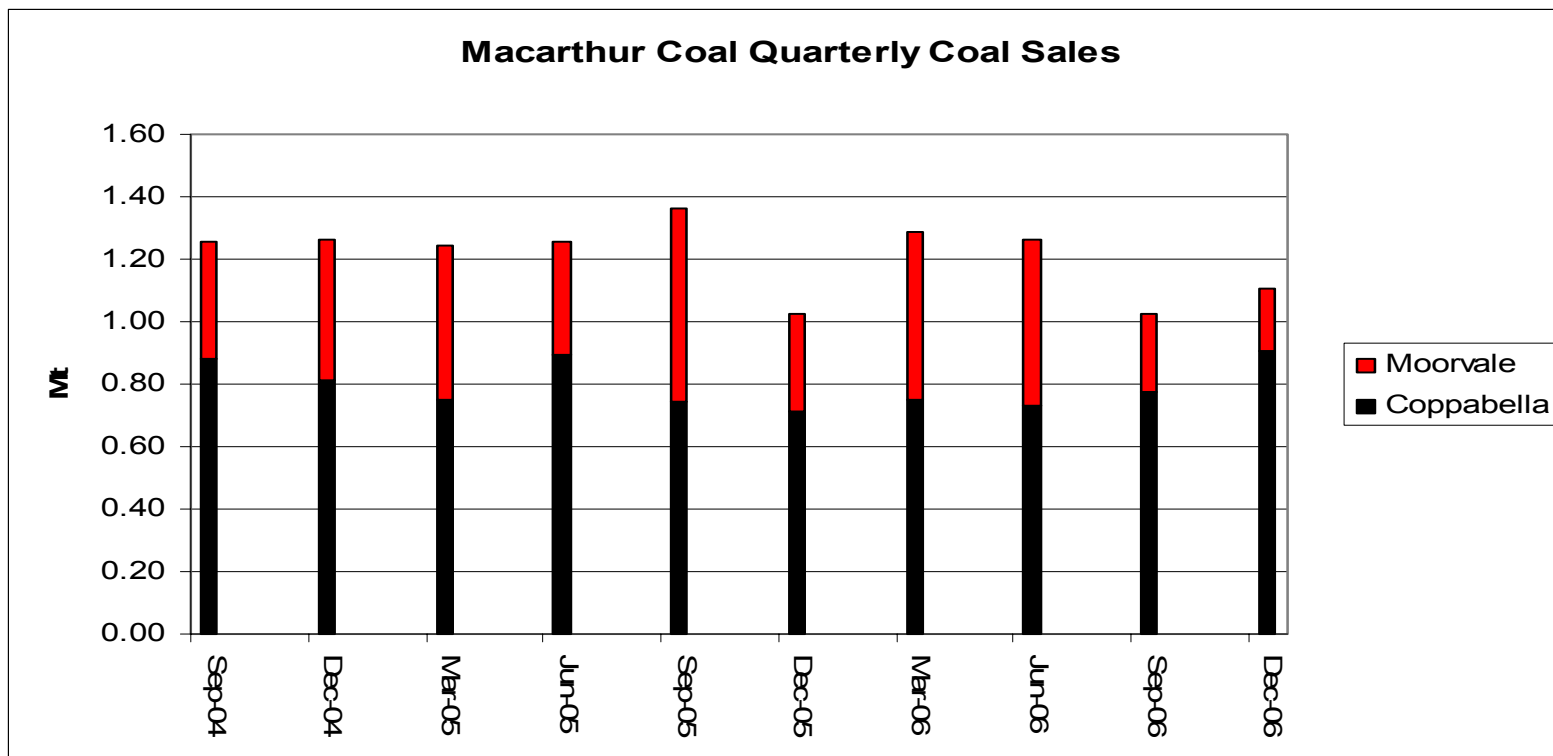
Steel Markets

- The steel price in the US has fallen in the last few months which has led production cuts by a number of the producers
- Prices in China (red line) have increased in recent weeks as excess stocks were exported



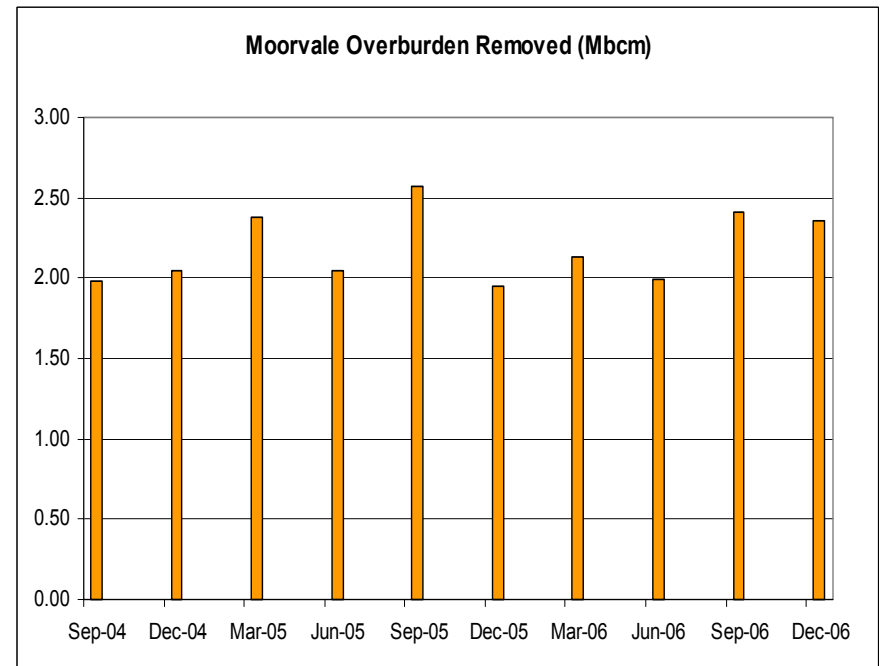
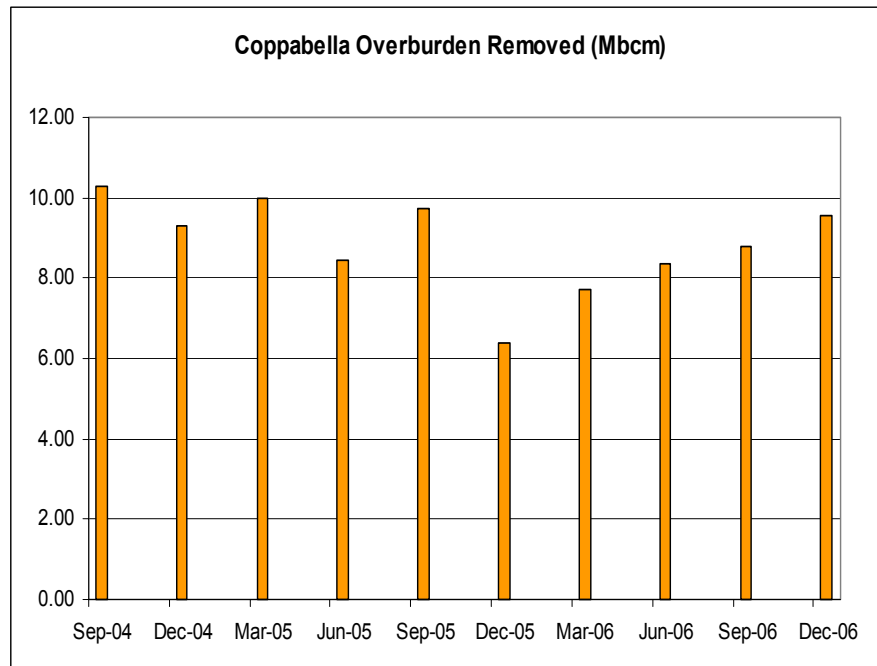
Sales

- Sales for the quarter were 1.1Mt and 8% higher than the previous corresponding period and 27% higher than previous quarter
- The Coppabella mine set a new shipment record of 0.9Mt for the quarter



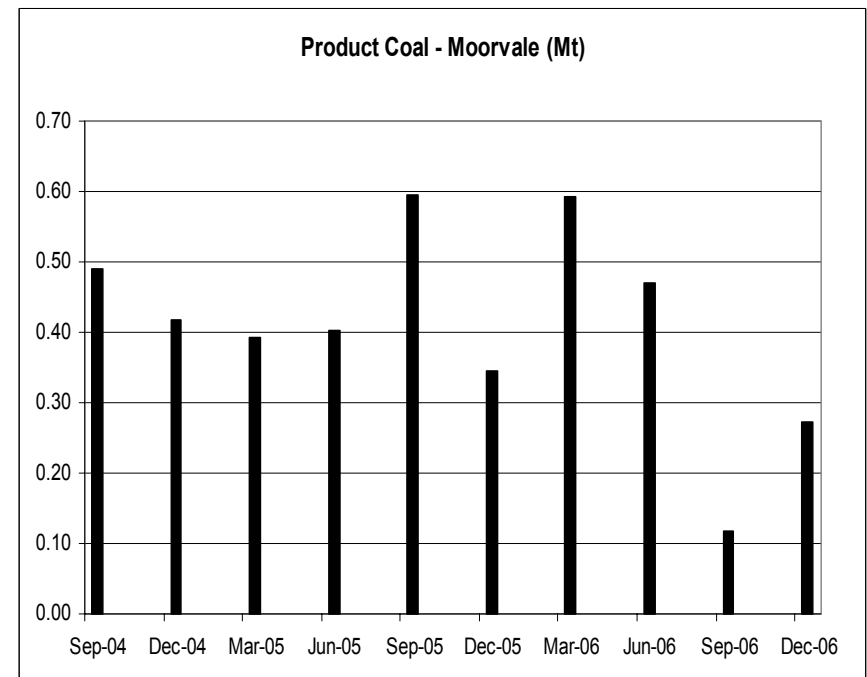
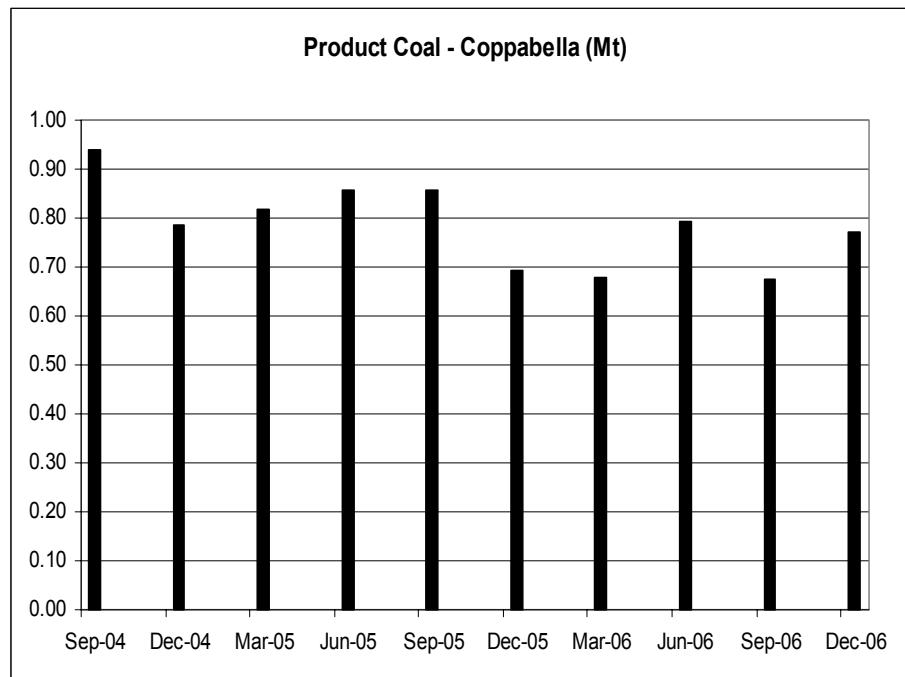
Operations

- Overburden removal rates at Coppabella continued to improve during the quarter but will be impacted in the March quarter by scheduled maintenance of the dragline and the high wall failure in the South Pit
- Mining of overburden at Moorvale remained constrained by excavator capacity and limited space for throw blasting during the quarter however this will be remedied over the next quarter as an additional excavator has commenced working at the mine and dozer push becomes possible



Operations

- Total coal production of 1.04Mt was steady on a quarter on quarter basis however total production improved by 24% from the weak September quarter
- Production from the Moorvale mine improved significantly from the previous quarter however production still remains below target levels



Operations

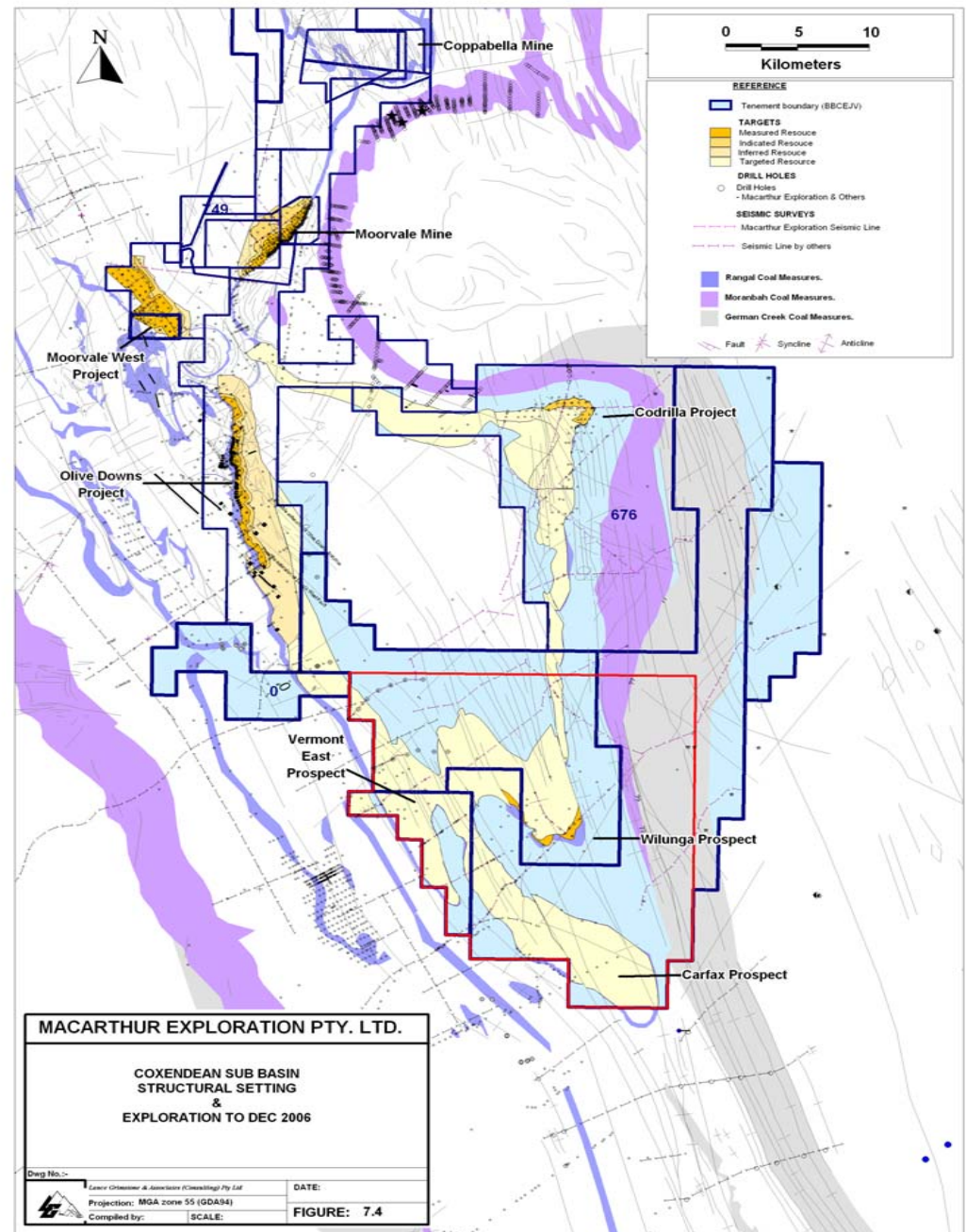
- The acquisition of Peter Champion Mining (PCM) was completed on 1 December and the transaction represents Macarthur Coal's first step towards operator ownership
- Most of the staff from PCM have now joined the ranks of Macarthur Coal employees
- Macarthur Coal expects to improve its overall competitiveness by reducing costs and improving the efficiency of the operation following the acquisition
- Cost benefits will to be observed in FY2008
- The Joint Venture has entered into a three year tyre supply contract with a large eastern European based manufacturer that will meet its requirements over the next few years
- The tyres will be priced at a level well below current spot prices and will ensure that mining operations can continue throughout the contract period

Exploration & Development

- Sedgman has been awarded the contract to expand the Moorvale CHPP throughput capacity by 150tph from the current level of 450tph
- The expansion is timed for completion by the end of this year when extra port capacity becomes available
- The 3D seismic surveys at both Moorvale West and Moorvale are being evaluated
- The survey at Moorvale West has revealed some faulting that would impact mining so further mine design work is required on the project
- Initial evaluation of Moorvale underground area indicate that the project has potential although further 3D work maybe required to fully evaluate the area for potential mining
- Exploration activity including drilling and geophysical logging continued in the Vermont East Carfax area during the quarter with a view to generate a geological model for the area
- Exploration activity for the current quarter will be impacted by the wet season and difficulty in accessing some areas

Exploration

- The map shows the location of the Vermont East and Carfax prospects
- Both prospects are reasonably close to the Wilunga deposit that contains a 38M resource
- Exploration work in the area will recommence once the wet season has passed and access to the area is available



Hedge Position

- The hedge position will increase over the next few weeks as sales contracts with the customers are finalised
- The hedging policy is to hedge 85% of US dollar revenue back into Australian dollars as sales contracts are completed

Period covered by FX Hedge Contracts	US dollar value	FX rate A\$1.00 = US\$	A\$ Unrealised gain based on A\$:US\$ spot rate of \$0.7913*
Jan 07 to Jun 07	79,126,375	0.746	6,080,121
Jul 07 to Jun 08	29,650,561	0.769	1,081,848
Total	108,776,936	0.752	7,161,969
* A\$:US\$ spot rate as at 31December 2006			

Conclusions

- **Macarthur still expects to achieve the target sales of 4.5Mt for the full year**
- **Trade press has reported LVPCI coal price settlements of US\$67.5**
- **A five year equipment financing facility of \$180 million has been completed**
- **The tyre supply contract is a significant positive development**
- **Production at both mines improved during the December quarter however the outlook for the March quarter is not as favourable following problems with the Coppabella highwall**
- **The acquisition of PCM has gone very well and cost improvements will come through over the next year**