

Macarthur Coal Limited

ABN 40 096 001 955

ASX Code: MCC

Appendix 4D Half Year Report

for

Period ended 31 December 2006

Information should be read in conjunction with the most recent annual financial report and half-year financial report.

Macarthur Coal Limited

ABN 40 096 001 955

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Appendix 4D

Half Year Report

Name of Entity:

Macarthur Coal Limited

ABN

40 096 001 955

Current reporting period

Half Year ended 31 December 2006

Previous corresponding period

Half Year ended 31 December 2005

Results for announcement to the market

			\$'000
Revenue from ordinary activities	Down	22.1% to	216,185
Profit for the year attributable to equity holders of the parent	Down	48.4% to	42,416

Dividends	Amount per Security	Franked amount per security
<i>For the 6 months ended 31 December 2006</i>		
Interim Dividend	11 cents	11 cents
<i>For the 6 months ended 31 December 2005</i>		
Interim Dividend	23 cents	23 cents
The Record date for determining entitlements to the interim dividend	16 March 2007	
Date the dividend is payable	30 March 2007	

Dividend Reinvestment Plan

There is no dividend re-investment plan in operation.

Brief explanation of results for announcement to the market

EBITDA was \$64.5 million, a decrease of \$60.9 million on the corresponding period last year.

The major items responsible for the change to EBITDA are:

Increases to EBITDA:

- Royalty costs decreased by \$5.1 million as a result of lower coal prices
- Decreased commissions due to lower coal prices
- Decreased port charges due to an adjustment in the current financial year for a retrospective reduction in the Dalrymple Bay Coal Terminal Infrastructure Charge
- Decreased rail charges due to a reduction in the rail haulage pricing and reduction in tonnes hauled to Abbot Point

Decreases to EBITDA:

- Coal sales revenue decrease of \$61.4 million due to decreased US dollar sales prices
- Higher Moorvale Mine mine site costs following renegotiation of the mining contract and higher strip ratio
- Demurrage costs increased by \$2.2 million due to increased congestion at the port

Interest revenue was \$4.6 million, an increase of \$1.9 million.

- Higher cash balances held during the period

Depreciation and amortisation costs were \$7.6 million, an increase of \$0.2 million.

Financing expenses were \$1.6 million, a reduction of \$2.2 million.

- Decreased interest expense due to the repayment of borrowings during the prior period offset by establishment costs incurred to set up an equipment finance facility.

Pre-tax profit was \$59.8 million, a decrease of \$56.9 million.

NPAT was \$42.4 million, a decrease of \$39.7 million.

NTA backing	31 December 2006	31 December 2005
Net tangible asset backing per ordinary security	\$2.17 per share	\$1.94 per share

Control gained over entities having material effect

Name of entity (or group of entities)	NIL
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Loss of control of entities having material effect

Name of entity (or group of entities)	NIL
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This report is based on the consolidated financial report for the half year ended 31 December 2006 which has been subject to auditor's review.



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

**Interim Financial Report
31 December 2006**

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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 2006 and the review report thereon.

Directors

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

Name	Period of directorship
Hon. Keith De Lacy AM Chairman Independent Non-executive Director	Appointed 2 May 2001
Mr Roger Marshall OBE Deputy Chairman Non-executive Director	Appointed 2 May 2001
Mr Ken Talbot Executive Director until 19 January 2007 Non-executive Director since 19 January 2007	Appointed 2 May 2001
Mr Don Nissen Independent Non-executive Director	Appointed 2 May 2001
Mr Peter Forbes Independent Non-executive Director	Appointed 14 November 2003

Results of Operations

The profit after income tax of the consolidated entity for the financial period was \$42,416,000 (2005: \$82,148,000). An interim dividend of 11 cents per share is proposed for payment on 30 March 2007.

Review of Operations

Production

MACARTHUR COAL'S ATTRIBUTABLE PRODUCTION				
- COPPABELLA & MOORVALE MINES (73.3%)				
		Actual - Year to Date		
		Dec-06	Dec-05	% Var
		000s	000s	
Overburden Removed				
Coppabella	bcm	18,307.0	16,129.5	13.5
Moorvale	bcm	4,771.8	4,515.4	5.7
Total	bcm	23,078.8	20,644.9	11.8
Run of Mine Coal Extracted				
Coppabella	tonnes	1,992.4	1,759.8	13.2
Moorvale	tonnes	496.5	1,265.9	(60.8)
Total	tonnes	2,488.9	3,025.7	(17.7)
Saleable Coal Production*				
Coppabella	tonnes	1,447.4	1,550.3	(6.6)
Moorvale	tonnes	390.0	940.9	(58.6)
Total	tonnes	1,837.4	2,491.2	(26.2)

*Output from the coal handling and preparation plant

Macarthur Coal Limited and its Controlled Entities

Directors' Report

Production (continued)

Coppabella Mine

The volume of overburden removed for the six months to December 2006 was 13.5% higher than the corresponding period last year, allowing ROM coal production to improve by 13.2%.

Mining operations for the six months to 31 December 2006 occurred in the Johnson, South and East pits. In the corresponding period last year, the Creek Pit was used rather than the East Pit.

Improvements in overburden removal and run of mine (ROM) coal production were achieved as a consequence of measures taken to improve blast performance. The changes have led to increased throw of waste material and greater fragmentation, enabling dragline productivity to increase. Additionally, the number of dozers used for pushing overburden has been increased.

Moorvale Mine

Moorvale Mine production was adversely affected by the move of mining operations to the second strip as a consequence of the completion of mining the first strip. Although the volume of overburden removed during the six months to 31 December 2006 was 5.7% higher than the volume moved in the corresponding period last year, it is lower than that required to increase ROM coal production significantly. The ratio of overburden to coal in the second strip is approximately 5:1, which is nearly double that of the first strip.

Access to coal was constrained as overburden removal was limited to a truck and excavator operation due to throw blasting not being possible and no provision for in-pit dumping of overburden. To accelerate overburden removal, an additional excavator fleet was mobilised during the December 2006 quarter and mining has progressed sufficiently along one end of the strip to create a mined out area to receive the benefit of throw blasting and dozer pushing. Throw blasting and dozer pushing are expected to commence at the other end of the second strip in March 2007.

Operating costs

The FOB cost of coal sold (excluding purchased coal) for the six months to 31 December 2006 was \$51.08 per tonne, down 4.9% on the corresponding six months to 31 December 2005. The reduction was due to a 28.5% reduction in off minesite costs. Major contributors to the decrease comprised:

- Royalty costs which decreased by \$5.1 million to \$13 million, a decrease of \$1.48 on a cost per tonne basis, due to a lower US dollar coal price
- Sales commission which decreased by \$2.6 million. The decrease was \$0.33 on a cost per tonne basis and was also due to the lower US dollar coal price
- Ports charges which decreased by \$1.7 million. The decrease was \$0.58 on a cost per tonne basis due to an adjustment in the current financial year for a retrospective reduction in the Dalrymple Bay Coal Terminal Infrastructure Charge. Entitlement to the reduced charge (effective from 1 July 2004) was triggered by the recent signing of the new port user agreement.
- Rail charges which decreased by \$4.6 million. The decrease was \$1.45 a cost per tonne basis due to a reduction in the rail haulage pricing and reduction in tonnes hauled to Abbot Point.

However, demurrage costs for the half year just completed were \$2.2 million higher than in the corresponding period in 2005 due to increased port congestion.

Minesite costs increased by 18.2% on a cost per tonne basis. The increase was fully attributable to the Moorvale Mine. Increased unit charges for overburden and coal mining at Moorvale Mine were applicable to the December 2006 half year following the renegotiation of the mining contract and higher strip ratio applicable to the second strip.

Total Coppabella minesite costs on a cost per tonne basis were 5% lower for the six months to 31 December 2006. A lower strip ratio and higher coal preparation yield were responsible for the decrease.

Macarthur Coal Limited and its Controlled Entities

Directors' Report

Sales

MACARTHUR COAL'S ATTRIBUTABLE SALES					
- COPPABELLA & MOORVALE MINES (73.3%)					
			Actual - Year to Date		
			Dec-06	Dec-05	% Var
			000s	000s	
Coppabella	(excl. sale of purchased coal)	tonnes	1,684.4	1,458.8	15.5
Moorvale	(excl. sale of purchased coal)	tonnes	442.8	923.9	(52.1)
Total		tonnes	2,127.2	2,382.7	(10.7)

Demand for low volatile PCI coal was strong throughout the half year period. Coppabella Mine shipments of 1,684,400 tonnes for the half year were the second highest on record for the mine, falling short of the December 2004 half year record by 14,400 tonnes. Coppabella Mine is on track to exceed its three million tonne target for the 2007 financial year.

Moorvale Mine shipments for December 2006 half year were below target. Poor performance was due to the limited supply of coal caused by operations moving from the first to the second strip. Shipments in the March 2007 quarter are expected to continue to be affected by the move to the second strip.

Low volatile PCI coal price negotiations for the contract year (12 months to 31 March 2008) are in progress with settlements nearly completed. US dollar price outcomes to date are in line with the Company's pricing assumptions used in the annual profit guidance of \$63 to \$73 million provided at the Annual General Meeting in November 2006.

Environmental Performance

Macarthur Coal is committed to minimising the environmental impact of its operations whilst maximising the economic recovery of coal.

In the six months to 31 December 2006, no reportable non-compliance environmental issues occurred at Macarthur Coal's mining operations.

Infrastructure

Water

SunWater completed construction of the Eastern Water Pipeline running from Moranbah to Coppabella Mine in December. Water commenced flowing in early January 2007 although the pipeline is still being commissioned. In the period to December 2006 water was sourced from onsite holding facilities and Eungella Dam.

Water supply from the Eungella and Burdekin Falls dams and the Mallowa system is required to supplement rain water collected on minesites. No significant rainfalls occurred during the December 2006 quarter and the delay to the commissioning of the Eastern Water Pipeline and reduced water supply from the Mallowa system left minesite dams nearly empty, disrupting operations in early January. Subsequent high rainfall has provided relief, replenishing onsite and offsite dams supplying water to Macarthur Coal's operations. Recent rainfall has also resulted in significant increase to storage levels in the Burdekin and Eungella Dams. The current level in the Eungella Dam is the highest in more than five years.

Macarthur Coal Limited and its Controlled Entities

Directors' Report

Infrastructure (continued)

Port

Macarthur Coal executed a new Dalrymple Bay Coal Terminal User Agreement with Babcock and Brown Infrastructure, replacing the existing contract. The new agreement provides for an extension of Macarthur Coal's 4.4 Mtpa contract to 30 June 2018 and a reduction in the Terminal Infrastructure Charge (TIC) rate of approximately \$0.45 per tonne effective retrospectively from 1 July 2004. Macarthur Coal will be receiving a refund for the overpayment to 31 December 2006. The refund has been recognised in the net profit for the six months to 31 December 2006.

Macarthur Coal has successfully sought an additional port entitlement at Dalrymple Bay Coal Terminal (DBCT). The contract for the additional entitlement became unconditional in October 2006. Macarthur Coal's total export entitlement through the terminal is to progressively increase from the current 4.4 Mtpa to 8.8 Mtpa by 2010 following completion of the DBCT expansion to 85 Mtpa.

Rail

Port entitlements need to be matched by rail entitlements. Macarthur Coal has obtained confirmation from QR National, that it will be able to extend and increase Macarthur Coal's rail haulage contract to match the DBCT entitlement.

Exploration and project development

Exploration and development of grass roots projects remain a priority. Macarthur Coal continues to invest in exploration to identify opportunities for organic growth. Exploration expenditure for the six months to December 2006 was \$5 million.

The development timetable, which takes account of planned infrastructure expansions, provides for production increasing to a target of 8.8Mtpa in 2010. The proposed development is aimed at enhancing Macarthur Coal's position as a long-term, reliable and competitive supplier to its customers.

Olive Downs Open-cut Project

Work has continued on the Olive Downs project with a Mine Operations Study and Site Infrastructure Feasibility Report completed. Infill drilling has begun to examine potential resources between Olive Downs and Moorvale West.

The mining lease application process has continued with commencement of the public notification period in January 2007.

Moorvale West Project

Interpretation of the 3D seismic data and assessment of the geotechnical data were completed. The 3D seismic survey provided a clear image of the deposit revealing several faults. Mining options are now being assessed.

Moorvale Underground Project

The 3D seismic survey field work has been completed and analysis of seismic data is expected to be completed in the March 2007 quarter. Exploration of the potential underground area is continuing.

Macarthur Coal Limited and its Controlled Entities

Directors' Report

Exploration and project development (continued)

Vermont East

Scout drilling and geophysical logging was maintained. Identification of seismic reflectors has enhanced the interpretation of the coal seam geometry and assisted with the selection of likely open cut targets. Structure contours derived from the seismic data are being utilised in constructing a preliminary geological model.

A 2D seismic survey commenced to determine the southern boundary of the Vermont East deposit.

West Burton

A 2D seismic survey was undertaken. A large fault repeat was identified and will be targeted by follow-up scout drilling in 2007. The survey results prompted lodgement of an application for an exploration permit (EPC 1115) over an area adjacent to the area covered by the 2D seismic survey.

Capricorn

Processing of the latest 2D seismic traverses in the south of the tenement has yielded positive results. A number of downthrown fault blocks contain relatively undeformed reflectors which are to be tested by follow-up drilling to determine whether they represent economic coal seams.

Queensland Coke and Power Plant Project

Macarthur Coal, through its wholly owned subsidiary Queensland Coke & Energy Pty Ltd (QCE), progressed its investigation into the feasibility of establishing a coke making facility. The plan to site the coke plant near Rockhampton has been delayed as there are serious issues with covenants attached to land which would have been occupied by associated coke plant infrastructure.

QCE has been undertaking subsequent investigations with potential new investors to site the plant near Gladstone. QCE and the Coordinator General's Office are continuing the preliminary assessment of the Gladstone site. QCE has been working closely with Babcock and Brown in relation to the power station component of the project.

Peter Champion Mining Asset Acquisition

On 1 December 2006, Macarthur Coal took the first step towards owner/operator status with the acquisition of the assets of Peter Champion Mining Pty Ltd which had been operating in the Coppabella Mine East Pit. Seventy-one Peter Champion Mining staff (representing in excess of 90% of the Peter Champion Mining workforce) transferred to Macarthur Coal.

The move towards an employee workforce to carry out mining operations has been made to improve Macarthur Coal's competitiveness by gaining greater control over mining activities and reducing costs. Cost benefits are expected to flow through in the 2008 financial year.

Equipment Finance Facility

In early January 2007, Macarthur Coal obtained a \$180 million equipment finance facility which will be used to fund the assets acquired from Peter Champion Mining and the acquisition of a new P&H electric shovel and associated truck fleet. In addition, the facility provides the Company with the flexibility to fund additional equipment acquisitions when the move to complete owner/operator status at Coppabella Mine occurs, which is expected to take place in 2008.

Tyres

Macarthur Coal has entered into an agreement with a tyre manufacturer for the supply of 49 inch and 57 inch tyres for a three-year period with the price to be paid for tyres substantially lower than current spot prices. The contract establishes a reliable supply of tyres for mining equipment owned by Macarthur Coal and has an option to be extended beyond the current three-year term.

Macarthur Coal Limited and its Controlled Entities

Directors' Report

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 9 and forms part of the directors' report for the half-year ended 31 December 2006.

Rounding Off

The consolidated entity 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 27 February 2007.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "Keith De Lacy", with a stylized flourish at the end.

Keith De Lacy
Chairman



Macarthur Coal Limited and its Controlled Entities

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Macarthur Coal Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink, appearing to be 'KPMG' followed by a stylized flourish.

KPMG

A handwritten signature in blue ink, appearing to be 'Warren Austin'.

Warren Austin
Partner

Brisbane
27 February 2007

Macarthur Coal Limited and its Controlled Entities

**Consolidated Interim Income Statement
For the six months ended 31 December 2006**

	Note	31 Dec 2006 \$'000	31 Dec 2005 \$'000
Revenue from coal sales		216,185	277,576
Cost of coal sold		(144,548)	(145,109)
Gross Profit		71,637	132,467
Other income		234	3,150
Distribution expenses		(6,351)	(9,772)
Administration expenses		(6,720)	(6,791)
Other expenses		(1,934)	(1,146)
Results from operating activities		56,866	117,908
Financial income		4,624	2,687
Financial expenses		(1,644)	(3,814)
Net financing income/(costs)		2,980	(1,127)
Profit before tax		59,846	116,781
Income tax expense		(17,430)	(34,633)
Profit for the period attributable to equity holders of the parent		42,416	82,148
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share from continuing operations	12	\$0.23	\$0.47
Diluted earnings per share from continuing operations	12	\$0.23	\$0.47

The income statement is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 14 to 21.

Macarthur Coal Limited and its Controlled Entities

**Consolidated Interim Statement of Recognised Income and Expense
For the six months ended 31 December 2006**

	31 Dec 2006 \$'000	31 Dec 2005 \$'000
Recognised directly in equity		
Net gain on fair value of other financial assets	4,052	-
Cashflow hedges:		
Gains/(losses) taken to equity	5,304	(4,427)
(Gains)/losses transferred to income statement	(2,543)	(6,601)
Income and expense recognised directly in equity	6,813	(11,028)
Profit for the period	42,416	82,148
Total recognised income and expense for the period attributable to equity holders of the parent	49,229	71,120

Effect of change in accounting policy

Effect of adoption of AASB 132 and AASB 139 on 1 July 2005:

Net increase in Cash Flow Hedging Reserve:

 Cumulative changes in fair value of effective cash flow hedges

 Related deferred income tax

	-	20,252
	-	(4,748)
	-	15,504

Other movements in equity arising from transactions with owners as owners are set out in Note 11.

The amounts recognised directly in equity are disclosed net of tax.

The statement of recognised income and expense is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 14 to 21.

Macarthur Coal Limited and its Controlled Entities

**Consolidated Interim Balance Sheet
As at 31 December 2006**

	Note	31 Dec 2006 \$'000	30 June 2006 \$'000
Current assets			
Cash and cash equivalents		84,492	168,603
Trade and other receivables		47,421	52,662
Inventories		18,778	15,412
Other financial assets		16,447	8,810
Assets classified as held for sale	8	49,497	-
Other assets		91,489	74,206
Total current assets		308,124	319,693
Non-current assets			
Trade and other receivables		4,245	4,603
Other financial assets	9	15,216	-
Property, plant and equipment		165,889	170,107
Exploration and evaluation expenditure		99,493	94,809
Other assets		3,488	2,904
Total non-current assets		288,331	272,423
Total assets		596,455	592,116
Current liabilities			
Trade and other payables		88,181	68,538
Interest-bearing loans and borrowings		1,929	1,931
Income tax payable		3,593	44,395
Employee benefits		1,316	506
Provisions		2,203	3,344
Other financial liabilities		1,744	3,272
Total current liabilities		98,966	121,986
Non-current liabilities			
Interest-bearing loans and borrowings		8,250	8,785
Deferred tax liabilities		53,999	42,335
Employee benefits		153	156
Provisions		18,594	16,600
Other financial liabilities		9,819	11,081
Total non-current liabilities		90,815	78,957
Total liabilities		189,781	200,943
Net assets		406,674	391,173
Equity			
Issued capital	11	246,343	246,343
Reserves	11	9,633	2,820
Retained earnings	11	150,698	142,010
Total equity		406,674	391,173

The balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 14 to 21.

Macarthur Coal Limited and its Controlled Entities

**Consolidated Interim Statement of Cash Flows
For the six months ended 31 December 2006**

Note	31 Dec 2006 \$'000	31 Dec 2005 \$'000
Cash flows from operating activities		
Cash receipts from customers	226,712	257,638
Cash paid to suppliers and employees	(151,161)	(152,202)
Cash generated from operations	75,551	105,436
Interest received	4,624	2,687
Income taxes paid	(50,274)	(18,598)
Net cash from operating activities	29,901	89,525
Cash flows from investing activities		
Acquisition of property, plant and equipment	(1,619)	(5,634)
Proceeds from sale of property, plant and equipment	19	17
Exploration and evaluation expenditure	(4,940)	(2,100)
Acquisition of other financial assets	(9,270)	-
Payment for other acquisitions	(34,254)	-
Contributions (to)/from joint ventures	(4,075)	44,187
Payments for assets held for sale	(20,689)	-
Advances to related entities	(3,077)	-
Net cash (used in) from investing activities	(77,905)	36,470
Cash flows from financing activities		
Proceeds from the issue of share capital	-	152
Repayment of borrowings	(536)	(19,729)
Payment of interest:		
Convertible notes	-	(250)
Other	(877)	(2,348)
Repayment of other financial liabilities	(966)	(1,502)
Dividends paid	(33,728)	(19,010)
Net cash used in financing activities	(36,107)	(42,687)
Net increase/(decrease) in cash and cash equivalents	(84,111)	83,308
Cash and cash equivalents at 1 July	168,603	18,138
Cash and cash equivalents at 31 December	84,492	101,446

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 14 to 21.

**Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006**

1. Reporting entity

Macarthur Coal Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company's registered office at Level 18, 215 Adelaide Street Brisbane, Queensland or at www.macarthurcoal.com.au.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

The consolidated interim financial report was approved by the Board of Directors on 27 February 2007.

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

3. Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in Note 11: Reconciliation of movements in equity.

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.

Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006

5. Segment reporting

Segment information is presented in the consolidated interim financial statements in respect of the consolidated entity's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the consolidated entity's management and internal reporting structure.

Business segments

The consolidated entity comprises the following main business segments:

- *Operating coal mines:* Coppabella and Moorvale mines
- *Exploration and evaluation:* Various tenements in the exploration and evaluation phase
- *Other:* Corporate and other business development activities

Business Segments	Operating Coal Mines \$'000	Exploration and Evaluation \$'000	Other \$'000	Eliminations \$'000	Consolidated \$'000
31 December 2006					
Segment revenue	216,185	-	-	-	216,185
Segment result	62,507	(37)	(5,604)	-	56,866
Unallocated expenses					-
Results from operating activities					56,866
Net financing income					2,980
Income tax expense					(17,430)
Profit for the period					42,416
31 December 2005					
Segment revenue	277,576	-	-	-	277,576
Segment result	122,905	(312)	(4,685)	-	117,908
Unallocated expenses					-
Results from operating activities					117,908
Net financing costs					(1,127)
Income tax expense					(34,633)
Profit for the period					82,148

Macarthur Coal Limited and its Controlled Entities

**Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006**

6. Acquisition of subsidiary

The following controlled entity was acquired during the period:

Acquisition

Name	Date acquired	Consolidated entity's interest %	Consideration \$'000	Contribution to consolidated net profit \$'000
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2006

Macarthur Coal (C&M Equipment) Pty Ltd ⁽¹⁾	28 Aug 2006	100	-	-
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2005

Moorvale West Coal Pty Ltd ⁽¹⁾	28 Nov 2005	100	-	-
West Walker Coal Pty Ltd ⁽¹⁾	28 Nov 2005	100	-	-
West Burton Coal Pty Ltd ⁽¹⁾	28 Nov 2005	100	-	-
West Rolleston Coal Pty Ltd ⁽¹⁾	28 Nov 2005	100	-	-
Capricorn Coal Pty Ltd ⁽¹⁾	28 Nov 2005	100	-	-
BB Interests Pty Ltd	15 Dec 2005	100	16,958	-

⁽¹⁾ The company was acquired as a shelf company for nominal cost. The shelf company had no assets nor had it operated at the date of acquisition.

7. Other acquisitions

On 1 December 2006 the consolidated entity acquired mining equipment owned by Peter Champion Mining Pty Ltd (PCM), a contractor operating at the Coppabella Mine, for \$34,254,000 in cash.

The acquisition had the following effect of the consolidated entity's assets and liabilities:

	Recognised values on acquisition \$'000
Trade and other receivables	3,856
Assets held for sale	28,808
Property, plant and equipment	1,208
Other assets	770
Employee benefits	(388)
Consideration paid, satisfied in cash	34,254

Macarthur Coal Limited and its Controlled Entities

Condensed Notes to the Consolidated Interim Financial Report For the six months ended 31 December 2006

8. Assets held for sale

Various items of plant and equipment are presented as a disposal group held for sale following the purchase of mining equipment and the acquisition of the assets of Peter Champion Mining Pty Ltd on 1 December 2006 (refer Note 7). Arrangements to sell the disposal group were substantially progressed at half-year end by means of an equipment finance facility and the sale occurred in January 2007 (refer Note 16). As at 31 December 2006 the disposal group comprised assets of \$49,497,000.

9. Other financial assets

Included within Other financial assets are investments in listed companies. These shares and options were acquired by the consolidated entity during the six months ended 31 December 2006 at a cost of \$9,270,000. As at 31 December 2006 the fair value of these shares and options was \$15,059,000 resulting in a fair value reserve of \$5,789,000. These shares and options were sold subsequent to half-year end (refer Note 16).

10. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2006, the consolidated entity acquired assets with a cost of \$1,892,000 (six months ended 31 December 2005: \$4,678,000). Assets with a net book value of \$35,000 were disposed of during the six months ended 31 December 2006 (six months ended 31 December 2005: \$69,000) resulting in a loss on disposal of \$16,000 (six months ended 31 December 2005: \$52,000).

11. Capital and reserves

Reconciliation of movements in equity

	Share capital \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2005	182,563	-	-	53,525	236,088
Effect of change in accounting policy	-	15,504	-	-	15,504
Balance at 1 July 2005 – restated	182,563	15,504	-	53,525	251,592
Total recognised income and expense	-	(11,028)	-	82,148	71,120
Shares issued on acquisition of joint venture interests	48,078	-	-	-	48,078
Shares issued on exercise of options	152	-	-	-	152
Shares issued on conversion of convertible notes	5,559	-	-	-	5,559
Dividends to shareholders	-	-	-	(19,010)	(19,010)
Balance at 31 December 2005	236,352	4,476	-	116,663	357,491
	Share capital \$'000	Hedging reserve \$'000	Fair value reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2006	246,343	2,820	-	142,010	391,173
Total recognised income and expense	-	2,761	4,052	42,416	49,229
Dividends to shareholders	-	-	-	(33,728)	(33,728)
Balance at 31 December 2006	246,343	5,581	4,052	150,698	406,674

Amounts are stated net of tax.

Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006

11. Capital and reserves (continued)

Share capital

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issuance of ordinary shares.

	Share Capital	
	2006	2005
	\$'000	\$'000
Issuance of ordinary shares	-	53,789

	Ordinary shares	
	2006	2005
On issue at 1 July	187,380,346	172,824,327
Shares issued on acquisition of joint venture interests	-	7,584,677
Shares issued on exercise of options	-	110,000
Shares issued on conversion of convertible notes	-	3,833,946
On issue at 31 December – fully paid	187,380,346	184,352,950

Dividends

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

	2006	2005
	\$'000	\$'000
\$0.18 per ordinary share (2005: \$0.11)	33,728	19,010

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

Subsequent events

Since the end of the six month period, the directors declared the following dividend:

	Cents per share	Total amount	Franked/ unfranked	Date of payment
		\$		
Interim-ordinary	11.0	20,611,838	Franked	30 March 2007

The financial effect of this dividend has not been brought to account in the financial statements for the six month period ended 31 December 2006 and will be recognised in subsequent financial reports.

12. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2006 was based on the profit attributable to ordinary shareholders of \$42,416,000 (six months ended 31 December 2005: \$82,148,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2006 of 187,380,346 (six months ended 31 December 2005: 173,929,408) calculated as follows:

Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006

12. Earnings per share (continued)

Profit attributable to ordinary shareholders
For the six months ended 31 December 2006

2006	2005
\$'000	\$'000

Profit for the period attributable to ordinary shareholders

42,416	82,148
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Weighted average number of ordinary shares
For the six months ended 31 December 2006

2006	2005
-------------	-------------

Issued ordinary shares at 1 July
 Effect of share options exercised
 Effect of conversion of convertible notes
 Effect of shares issued in December

187,380,346	172,824,327
-	43,880
-	398,060
-	663,141

Weighted average number of ordinary shares at 31 December

187,380,346	173,929,408
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Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2006 was based on profit attributable to ordinary shareholders of \$42,416,000 (six months ended 31 December 2005: \$82,148,000) and a weighted 187,380,346 (six months ended 31 December 2005: 174,012,460) calculated as follows:

Profit attributable to ordinary shareholders (diluted)
For the six months ended 31 December 2006

2006	2005
\$'000	\$'000

Profit attributable to ordinary shareholders (diluted)

42,416	82,148
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Weighted average number of ordinary shares (diluted)
For the six months ended 31 December 2006

2006	2005
-------------	-------------

Weighted average number of ordinary shares at 31 December
 Effect of share options on issue

187,380,346	173,929,408
-	83,052

Weighted average number of ordinary shares (diluted) at 31 December

187,380,346	174,012,460
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Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006

13. Contingencies

Litigation

On 19 December 2003, Macarthur Coal (C&M Management) Pty Ltd (MCCM), as manager and agent for the Coppabella and Moorvale Joint Venture participants, lodged a Notice of Dispute with its mining contractor Roche Mining Pty Ltd in relation to a mining contract at the Coppabella mine. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the contractor to deliver coal in accordance with the contract provisions.

On 9 June 2004, following rejection by the Superintendent of claims from the contractor, the contractor lodged a Notice of Dispute on MCCM under the mining contract. The rejected claim, consisting of 9 heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. By letter dated 28 June 2004, the contractor referred the Dispute to arbitration.

On 28 February 2005, the arbitrator determined that 7 of the 9 points of claim could proceed to arbitration. MCCM received the detailed Points of Claim (referred to as the 2004 financial year claim) from the contractor on 21 March 2005 and detailed Further Particulars on 5 September 2005. On 7 April 2006, MCCM lodged its defence in relation to the Points of Claim and lodged a counter claim against the contractor. On 5 July 2005, the contractor lodged a further Notice of Dispute in relation to alleged additional costs resulting from the Superintendent's approval of the 2005 financial year Mine Plan (referred to as the 2005 financial year claim). The claims were rejected by the Superintendent and the subsequent dispute was referred to arbitration in August 2005. On 10 April 2006, the contractor lodged a Consolidated and Further Amended Points of Claim in relation to both the 2004 financial year claim and the 2005 financial year claim. MCCM lodged its defence to the consolidated claim on 13 October 2006. On 13 January 2006, the contractor lodged a further Notice of Claim in relation to alleged additional costs resulting from the Superintendent's approval of the 2006 financial year Mine Plan. As at the date of the report, the contractor has not provided to the Superintendent requested details of the nature and quantum of this claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of \$100,000,000 for the Coppabella and Moorvale Joint Venture, of which the consolidated entity holds a 73.3% interest. Areas of duplication have been identified across these three claims and the contractor is yet to provide particulars regarding basis and quantum of the third claim.

The Directors of the consolidated entity (and the Manager) dispute the above claims and will vigorously defend their position in arbitration. The Arbitrator has set a date to hear the consolidated 2004 and 2005 financial year claims in June 2007.

In the Director's opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the consolidated entity.

There have been no material changes in other contingencies since the consolidated entity's most recent annual financial report.

14. Related parties

Continuing arrangements exist with related parties as disclosed in the consolidated entity's most recent annual financial report.

**Condensed Notes to the Consolidated Interim Financial Report
For the six months ended 31 December 2006**

15. Capital and other commitments

During the six months ended 31 December 2006 capital expenditure commitments for property, plant and equipment contracted but not provided for and payable increased by \$17,700,000.

During the six months ended 31 December 2006 operating commitments under electricity, water, rail, port, consumables, coal washing plant and train loading facility agreements for joint ventures not provided for and payable increased by \$242,980,000.

16. Subsequent events

Subsequent to the interim balance sheet date, the shares and options held in a listed company, referred to in note 9, were sold on market. The intention to sell the shares in the listed company was formulated after 31 December 2006. The sale of the investment was completed in February 2007 and the consolidated entity realised a gain of \$7,005,000. No gain on sale has been recognised in this interim financial report.

Subsequent to the interim balance sheet date, the consolidated entity entered into a \$180 million equipment finance facility which will be used to finance the owner operator strategy at the Coppabella Mine. The sale of the assets to the equipment finance company occurred in January 2007 at the assets' carrying value of \$49,497,000.

Macarthur Coal Limited and its Controlled Entities

Directors' Declaration

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

1. the financial statements and notes set out on pages 10 to 21 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 2006 and of its performance, as represented by the results of its operations and cash flows for the six months ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *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 this 27th day of February 2007

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 Auditor's Review Report to the Members of Macarthur Coal Limited

We have reviewed the accompanying interim financial report of Macarthur Coal Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes 1 to 16 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. As auditor of Macarthur Coal Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independent Auditor's Review Report to the Members of Macarthur Coal Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Macarthur Coal Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

A handwritten signature in blue ink, appearing to be 'KPMG' followed by a stylized flourish.

KPMG

A handwritten signature in blue ink, appearing to be 'Warren Austin'.

Warren Austin
Partner

Brisbane
27 February 2007