Development and growth

ANNUAL REPORT **2004**

MACARTHUR COAL LIMITED

ABN 40 096 001 955

ANNUAL REPORT 2004

TABLE OF CONTENTS

The objective of this report is to provide shareholders with a comprehensive, balanced, plain language account of Macarthur's 2004 operations and 2005 outlook.

HIGHLIGHTS

- Compound sales volume growth of 34.4% per annum achieved since IPO
- Ownership in Coppabella Mine increased to 73.3% effective 1 July 2003
- Two mine ownership objective achieved
- Coppabella and Moorvale joint ventures unified on 11 December 2003
- Transport Infrastructure Corridor Relocation Project completed in December 2003
- Rights issue closed oversubscribed on 19 April 2004 raising approximately $31 million
- New website launched in May 2004
- 571 days free from lost time injury achieved at the Moorvale Mine as at 30 June 2004
- All 10 ASX Corporate Governance Council Principles for Good Corporate Governance implemented

CHALLENGES

- Coppabella production impacted by:
  - Drill and blast failure in the September 2003 quarter
  - Heavy rainfall causing pit flooding in February 2004
  - Reduced throughput at the Dalrymple Bay Coal Terminal due to a coal reclaimer collapse in February 2004
- Strengthening Australian dollar relative to the United States dollar
- Health and safety performance at the Coppabella Mine

FINANCIAL HIGHLIGHTS

Year ended 30 June		2004	2003
Revenue from coal sales	$M	222.3	138.1
EBITDA	$M	38.3	29.2
EBIT	$M	26.7	21.8
Net profit after tax (NPAT)	$M	11.7	10.9
Earnings per share (diluted)	cents	8.6	8.3
Dividends per share	cents	3.78	4.20
Gearing (net debt/shareholders' equity)	%	39.2	41.0
Interest cover (EBITDA/interest paid)	times	4.6	8.3

Dollar amounts in this report are in Australian currency unless otherwise indicated

VIEW OF THE MOORVALE MINE FROM THE COAL LOAD OUT FACILITY

VISION

TO BECOME THE LEADING, INDEPENDENT, AUSTRALIAN RESOURCES COMPANY.

MISSION

- To grow total shareholder value by:
  - Identifying world class, grass roots assets and developing them in line with market demand
  - Minimising capital investment through innovative arrangements with suppliers of services and infrastructure
  - Responding quickly to cost effective opportunities to expand production and markets
  - Continually seeking innovative means to reduce operating costs and minimise risks
  - Meeting or exceeding production targets
  - Forging long term, mutually rewarding relationships with customers, suppliers, regulators, staff and the communities in which the Company's mining operations are based.

PRIORITIES

- Safe production: Targeting zero injuries and fatalities.
- Customer focus: Acknowledging customers are key to the Company's success.
- Responsible corporate citizenship: Caring about our global footprint.

DRAGLINE OPERATING AT THE COPPABELLA MINE

PRODUCT COAL STOCKPILE AT THE MOORVALE MINE

PROFILE

MACARTHUR IS A KEY SUPPLIER OF LOW VOLATILE PCI COAL TO MAJOR STEEL MILLS IN ASIA, EUROPE AND THE AMERICAS.

Macarthur Coal ('Macarthur' or the 'Company') is involved in coal production, coal mine development and exploration in the Bowen Basin, Queensland, Australia.

The Company is a key supplier of low volatile pulverised coal injection (PCI) coal to major steel mills in Asia, Europe and the Americas. The Company also supplies thermal coal and ultra low volatile coal.

Macarthur uses unincorporated joint venture structures for its coal mining, development and exploration activities, benefiting from strategic alliances with joint venture participants. The Company's joint venture interests are detailed below:

- Coppabella and Moorvale Joint Venture - 73.3%

  The joint venture assets include the Coppabella and Moorvale mines which together provide over 38% of the global seaborne low volatile PCI coal market.

  Macarthur's attributable, saleable coal production capacity for 2005 is 4.5 million tonnes.

  Australian Premium Coals (APC) manages the mines on behalf of the joint venture participants.

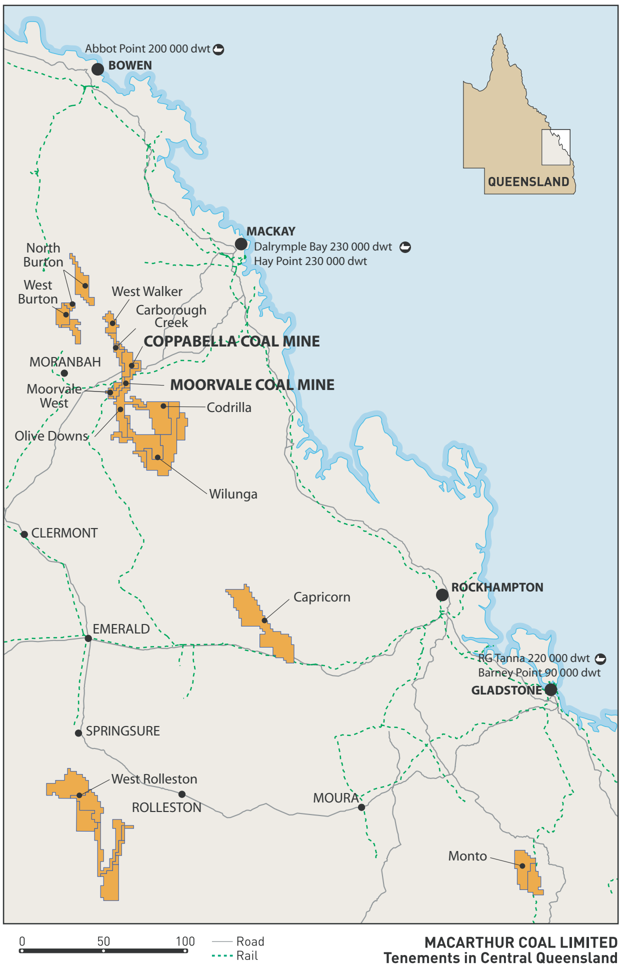
- Bowen Basin Coal Exploration Joint Venture - 43.7% in tenements existing at 5 July 2001 and 71.9% in tenements obtained after 5 July 2001

  The joint venture's assets are exploration tenements in the Bowen Basin.

  Macarthur's ownership is progressively increasing as a result of a farm-in arrangement which requires the Company to fund a $7.5 million exploration program over a four year period that ends in June 2005.

- Monto Joint Venture – 51%

  The joint venture asset is the Monto thermal coal resource. Development of the resource is undergoing evaluation. Targeted production is 10 million tonnes per annum.



MACARTHUR COAL LIMITED
Tenements in Central Queensland

PERSPECTIVES: CHAIRMAN

2004 WAS A YEAR OF GROWTH WITH MACARTHUR MOVING STEADILY CLOSER TO ACHIEVING ITS VISION OF BEING THE LEADING, INDEPENDENT AUSTRALIAN RESOURCES COMPANY.

HON. KEITH DE LACY
CHAIRMAN

Shareholders,

I reported last year that sentiment had generally turned against coal companies during the 2003 financial year, due to flat coal prices and an appreciating Australian dollar. The opposite is now the case, with favourable market conditions for coal producers likely to continue due to the rapidly expanding Chinese economy.

Macarthur has positioned itself to reap the reward of the strong coal market. We acquired a larger share of the Coppabella Mine, we repositioned the transport infrastructure corridor to expose our best coal, we moved to a two mine operation mid year, we added another mining contractor at Coppabella and worked through our operational issues. Additionally we have continued our strong exploration effort.

As a consequence our share price has trebled in the last twelve months, and shareholders can look forward to a much stronger profit performance.

Macarthur completed its third year of operation as a public company with another solid performance.

The net profit after tax (NPAT) for 2004 was $11.7 million, an 8% increase on 2003, and a pleasing result given the challenges that the Company faced during the year. A fully franked dividend of 3.78 cents per share was declared for the year, according with the board's policy of paying approximately 50% of NPAT as a dividend.

We have recently been advised that Macarthur will be included in the S&P/ASX 300 Index due to an increase in liquidity and size. Inclusion in the index provides significant exposure to institutional investors.

GROWTH

2004 was a year of growth, with Macarthur moving steadily closer to achieving its vision of being the leading, independent Australian resources company.

In December 2003 we completed the purchase of an additional 23.3% in our flagship asset the Coppabella Mine. The acquisition was followed by the unification of the Coppabella and Moorvale joint ventures, thereby streamlining operations and administration, and generating cost efficiencies.

A company milestone was reached with the commissioning of the Moorvale Mine infrastructure in December 2003, strengthening Macarthur's reputation for responding quickly to cost effective opportunities to expand production and markets.

The strategy of developing grassroots assets into operating mines remains central to the Company's mission of providing dynamic growth of shareholder value. The Company's development pipeline comprises eight projects, six containing PCI coal deposits and two containing thermal coal deposits.

CHALLENGES

2004 was also a challenging year. While the coal market started to boom, Macarthur was challenged by production issues, flooding, equipment failure at the Dalrymple Bay Coal Terminal and the strengthening of the Australian dollar.

Our strong relationships with customers enabled us to successfully manage the disruption to our shipping plan. In August 2004 Gerdau Acominas, one of our Brazilian customers, awarded us the High Supply Performance Award in recognition of responsiveness to customer needs.

Customers also value Macarthur's strong commitment to remaining an independent coal supplier in a climate of increasing industry consolidation.

GOVERNANCE

Macarthur's commitment to market leadership extends to its approach to corporate governance.

We have embraced the ASX Corporate Governance Council's recommendations, setting ourself the goal of meeting all of the recommendations for good corporate governance - not because we want to just tick the boxes, but because implementing the recommendations will achieve real benefits in performance, risk management, accountability and communication.

Peter Forbes, former Deputy CEO and Head of Equities at QIC, joined the board providing a wealth of commercial experience.

EXECUTIVE REMUNERATION

Executive remuneration is increasingly under the spotlight, with the relationship between bonus policies and financial performance requiring justification.

Macarthur's aim is to create shareholder value. As such we believe that executive rewards must encourage the creation of shareholder value.

Bonuses paid by Macarthur in 2004 were modest, (totalling $81,500) as profitability was below expectation. Details of executive remuneration are set out on page 37.

As CEO, Ken Talbot's primary objective is to increase shareholder value. To reflect this, he has agreed to hold his salary at a constant level and forgo bonus schemes typical of other listed resource companies, in preference to being rewarded by increased returns as a shareholder.

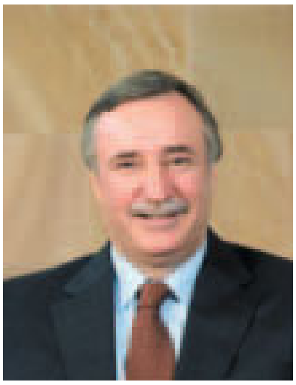
CONCLUSION

In conclusion I reiterate that Macarthur is well positioned to benefit from the strong growth prospects in the global coal market. Growth is our priority. Shareholders are entitled to feel optimistic about enhanced financial performance in the future.

Hon. Keith De Lacy
CHAIRMAN

PERSPECTIVES: CEO

MACARTHUR WILL CONTINUE TO PURSUE SUSTAINABLE VALUE BY MAXIMISING RETURN FROM THE COMPANY'S EXISTING MINES AND DEVELOPING NEW PROJECTS.



KEN TALBOT
CEO/MANAGING DIRECTOR

Shareholders,

My overriding priorities during the year were to ensure reliable production capacity, achieve the Company's sales target and prepare exploration projects for development.

COAL MARKET

The market for all coal types has become exceptionally strong during the year. Many coal industry analysts, operators and customers have struggled to appreciate the speed and extent of the market change.

The worldwide demand for metallurgical and PCI coal has increased in response to growth in world crude steel production capacity. The exception is India where growth has been constrained primarily by a lack of metallurgical coal.

In the past five years, growth in Chinese crude steel production has substantially increased from approximately 80 to 230 million tonnes per annum. Current production is approximately twice that of Japan.

Demand for thermal coal is also increasing particularly in China where increased industrialisation and improvements to standards of living require increased electricity supply.

Supply has not matched demand. Substantial constraints have emerged during the year in Australia and Canada, creating a short fall in supply. The supply short fall has been caused by:

- Substantial flooding in the Bowen Basin in the December 2003 to February 2004 period
- Underperformance of some deep underground Australian mines due to geological factors
- Restrictions through Dalrymple Bay Coal Terminal in Queensland due to the collapse of a stacker reclaimer
- The closure of the Southland Mine in New South Wales
- Severe snow storms in Canada that affected railing capacity for Canadian coal exports.

Increased supply to meet growing demand will be constrained by infrastructure which is fully utilised. At present, the only commitment to expanded port infrastructure within the Australian coal industry is at the Gladstone Port in Queensland. The lead time for expanded port capacity is likely to be at least three years.

Macarthur therefore predicts the PCI coal market to remain strong, particularly while infrastructure is constrained.

The market for metallurgical and PCI coals is likely to outperform thermal coal. Macarthur is aware of other thermal coal capacity that can be brought on stream around the world without requiring substantial upgrades in infrastructure.

COAL SALES

Total coal sales from the Coppabella and Moorvale mines were 5.2 million tonnes.

The Coppabella Mine underperformed by 0.4 million tonnes, however, the Moorvale Mine compensated by exceeding target by 0.7 million tonnes.

Macarthur's attributable sales increased 76.7% on 2003 to 3.8 million tonnes due to the establishment of Moorvale as a second mine and acquisition of an additional 23.3% interest in the Coppabella Mine in December 2003.

COAL PRODUCTION

At year end, the installed saleable coal production capacity was:

	Mtpa
Coppabella Mine	4.2
Moorvale Mine	2.0
Total	**6.2**

The saleable coal production at the Coppabella Mine for 2004 was 3.9 million tonnes which represented a shortfall of 0.3 million tonnes. Operational performance was 10% less than target by the end of December 2003 due to the underperformance of a mining contractor. Further, mining was constrained to the Johnson Pit pending completion of the Transport Infrastructure Corridor Relocation project in December 2003.

A second contractor was installed at the Coppabella Mine to restore supply reliability.

MINING AT THE COPPABELLA MINE

WAYNE CARUANA AND GREG WALES OF JSIS ENGINEERING PERFORMING MAINTENANCE WORK AT THE COPPABELLA MINE COAL HANDLING AND PREPARATION PLANT

Operational performance improved significantly in the second half. Run of mine stock levels had substantially improved by June 2004 allowing product coal yield to be optimised through the blending of run of mine coals.

Saleable coal production from the Moorvale Mine exceeded expectation. Infrastructure was successfully commissioned in December 2003 and 1.2 million tonnes were produced in the six months to 30 June 2004, including the washing of some stockpiled coal. The mine achieved an annualised production rate of 1.6 million tonnes.

Moorvale Mine production capacity has now been expanded to 2.0 million tonnes per annum.

The coal preparation plant at Coppabella Mine continued to achieve a high standard of throughput, availability and efficiency.

Mine management continues to work closely with all stakeholders in the coal chain to meet customer expectations for reliable delivery of coal in line with specifications.

SAFETY

The target for the Company's operations is zero injuries and zero fatalities.

I am pleased to advise that the Moorvale Mine achieved the Company's expectations.

Regrettably we did not achieve our safety target at the Coppabella Mine where we achieved mixed performance. Some sectors of the Coppabella operation achieved excellence, yet other sectors showed a deterioration in safety performance.

Overall the lost time injury frequency rate at the Coppabella Mine increased from 2.0 in 2003 to 8.5 in 2004. The rate is approximately twice the average for Queensland open cut coal mines.

Management is working closely with all contractors to improve safety performance and has employed a Health Safety and Compliance Manager to assist with the process.

EXPLORATION PROJECTS

The Company has maintained its commitment to exploration.

Macarthur has eight potential new projects, comprising seven identified through the exploration program and one acquired.

The Company has significant open cut resources and shallow underground resources with depths of cover between 100 metres and 300 metres.

The assets comprise low volatile PCI coal with some prospects for metallurgical coal and thermal coal.

THE YEAR AHEAD

Macarthur is well placed to remain a leading independent global supplier of low volatile PCI coal, with an emphasis on long term customer relationships.

Management will continue to pursue sustainable shareholder return by maximising return from the Company's existing mines and developing new projects. It is proposed that the development opportunities be coordinated to suit port and rail infrastructure expansions.

The strong demand for low volatile PCI coal should be positive for the 2005 price negotiations and beyond and Macarthur is well placed to benefit from the increases in coal prices coupled with the expansion of its production capacity to 4.5 million tonnes per annum.

K. Talbot

Ken Talbot
CEO/MANAGING DIRECTOR

OPERATIONAL PERFORMANCE

MACARTHUR'S ANNUAL SALES ACHIEVED A RECORD OF 3.8 MILLION TONNES, A 76.7% INCREASE ON 2003. THE INCREASE IS PRINCIPALLY ATTRIBUTABLE TO THE INCREASED OWNERSHIP OF THE COPPABELLA MINE AND THE ADDITION OF MOORVALE AS AN OPERATING MINE.

OVERVIEW

COMPOUND SALES VOLUME GROWTH SINCE LISTING ON THE AUSTRALIAN STOCK EXCHANGE IN JULY 2001 IS 34.4% PER ANNUM COMPARED TO THE COMPOUND GROWTH TARGET IN THE PROSPECTUS OF 10% PER ANNUM.

SALES

Macarthur's annual sales achieved a record of 3.8 million tonnes, a 76.7% increase on 2003. The increase is principally attributable to the increased ownership of the Coppabella Mine and the addition of Moorvale as an operating mine.

Year ended 30 June	2004 000s Tonnes	2003 000s Tonnes	% Var
Coppabella 100% (excl. sale of purchased coal)	3,750.5	4,198.0	-10.7%
Moorvale 100% (excl. sale of purchased coal)	1,435.6	68.4	NA
Total	5,186.1	4,266.4	21.6%
Macarthur's attributable sales	3,801.4	2,151.7	76.7%

Compound sales volume growth since listing on the Australian Stock Exchange in July 2001 is 34.4% per annum compared to the compound growth target in the prospectus of 10% per annum. Growth since 2001 is illustrated in Graph 1.

PRODUCTION

- **Production – Coppabella Mine (100%)**

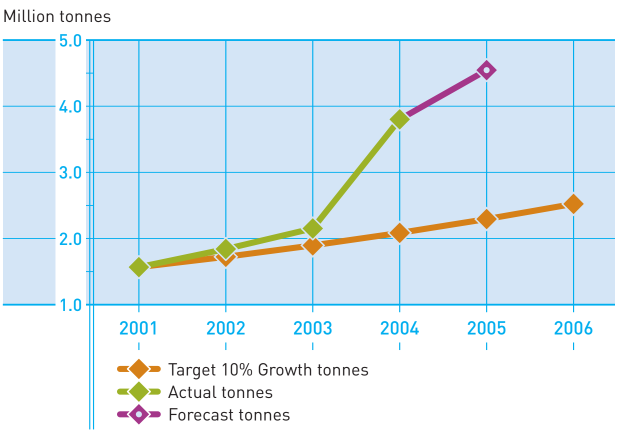
Year ended 30 June	2004 000s	2003 000s	% Var
Overburden removed (bcm)	40,760.7	48,495.9	-16.0%
Run of mine coal production (tonnes)	5,428.3	5,666.1	-4.2%
Saleable coal production (tonnes)	3,920.3	4,261.4	-8.0%

Overburden removal at the Coppabella Mine was lower than 2003, principally due to a drill and blast failure in the Johnson Pit in the September 2003 quarter and pit flooding in the March 2003 quarter.

GRAPH 1

10% COMPOUND SALES VOLUME GROWTH TARGET vs ACTUAL

for the years ended 30 June



Run of mine (ROM) and saleable coal production was subsequently impacted. A second contractor was engaged to improve the reliability of coal supply to meet the annual production target of 4.2 million tonnes.

- **Production – Moorvale Mine (100%)**

Year ended 30 June	2004 000s	2003 000s	% Var
Overburden removed (bcm)	6,499.5	2,107.5	208.4%
Run of mine coal production (tonnes)	2,003.5	300.7	566.3%
Saleable coal production (tonnes)	1,514.5	68.4	NA

Moorvale production exceeded initial expectations by 0.8 million tonnes. The saleable coal production capacity has been increased to 2 million tonnes per annum in response to the strong demand for coal.

MAJOR PROJECTS

- **Transport Infrastructure Corridor Relocation (TIC)**

The TIC was completed in December 2003. The project involved the relocation of the Goonyella-Hay Point Railway, Peak Downs Highway, Braeside Pipeline, Telstra coaxial cable and 66 kV overhead power line.

The relocation allows access to 28 million tonnes of higher yielding ROM coal in the South Pit, with the first coal mined in January 2004.

- **Moorvale Mine**

The Moorvale Mine became fully operational during the year, adding to management's list of projects developed from grassroots to production in a twelve month timeframe.

The project was completed on time and within budget at $65.7 million. Mining commenced prior to infrastructure completion, with coal hauled to the Coppabella Mine for processing.

EXPLORATION

Exploration with a view to repeating past successes in identifying coal deposits of significant economic value is a priority. Management is assessing priorities for converting exploration projects into operating mines.

INVESTMENTS

Macarthur acquired an additional 23.3% interest in the Coppabella Mine in December 2003, increasing its ownership to 73.3%. The increase was effective from 1 July 2003.

CORPORATE GOVERNANCE

Macarthur achieved its goal of meeting all the ASX Corporate Governance Council's recommendations for good corporate governance.

THE COAL MARKET

PRODUCTION FROM THE COPPABELLA AND MOORVALE MINES ACCOUNTS FOR APPROXIMATELY 38% OF THE GLOBAL SEABORNE MARKET FOR LOW VOLATILE PCI COAL.

The coal market has strengthened considerably with contracted prices and spot prices increasing.

Global Pulverised Coal Injection (PCI) coal demand exceeds supply. Factors responsible for the imbalance include:

- China changing from a net exporter to a net importer of coking coal to meet increasing internal coal demand
- Growth in Asian crude steel production, particularly to meet demand in China
- Insufficient growth in supply and infrastructure capacity, such as rail and port capacity, to meet the rapid growth in demand.

Macarthur is responding to the strong coal market by increasing production capacity. All PCI coal production from the Coppabella and Moorvale mines is committed for sale under contract.

PCI COAL

PCI coal is crushed into a fine powder and injected into blast furnaces as a replacement for coke in the production of pig iron. A blast furnace is illustrated in Diagram 1.

The replacement ratio of low volatile PCI coal to coke varies according to the requirements of each blast furnace, however replacement ratios are continuing to improve in favour of low volatile PCI coal. Typically 1.0 tonne of low volatile PCI coal can replace 1.5 tonnes of coking coal.

Low volatile PCI coal is increasingly sought by steel mills in preference to high volatile coal that has traditionally been used as PCI coal. Low volatile PCI coal provides superior performance in the blast furnace due to its higher energy content.

The worldwide shortage of coke and its relatively high price further enhance the appeal of low volatile PCI coal.

Low volatile PCI coal is only produced by six mines in Australia including the Coppabella and Moorvale mines.

Production from the Coppabella and Moorvale mines accounts for approximately 38% (Source: Barlow Jonker) of the global seaborne market for low volatile PCI coal.

THERMAL COAL

Thermal coal is principally used for power generation, with approximately 38% (Source: World Coal Institute) of the world's electricity generated through the use of thermal coal. The thermal coal produced at the Moorvale Mine is exported to Asia and Europe for use in coal fired power stations. The market for thermal coal strengthened during 2004 due to growing industrial and urban power demand, particularly in developing countries in Asia.

ULTRA LOW VOLATILE (ULTRA LV) COAL

During the year Ultra LV coal was added to the suite of coals produced at the Coppabella Mine.

Trial cargoes of Ultra LV coal were provided and orders have been received from steel mills that match Ultra LV coal production at Coppabella.

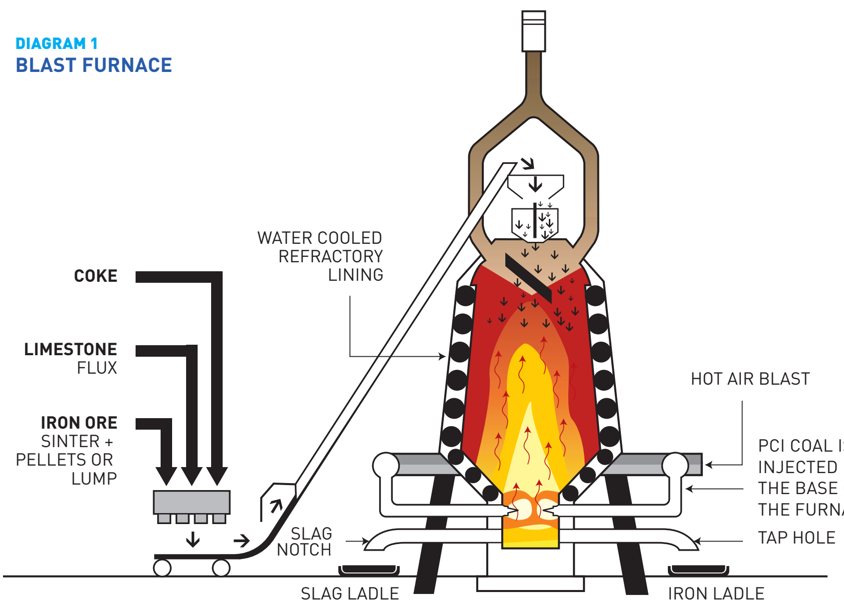
World coke shortages and consequent price increases have forced steel mills to review coke consumption.

Ultra LV coal can be used by steel mills as a replacement for coke breeze in the sintering process. Ultra LV coal is essentially low volatile coal that has been subjected to accelerated heating during its geological formation.

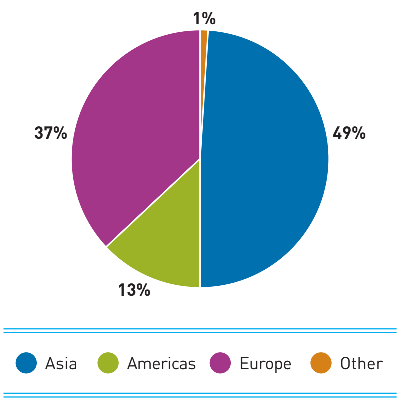
In the sintering process iron ore fines are converted into a form suitable for use in the blast furnace. Most of Macarthur's customers are integrated steel mills incorporating sintering plants.

Macarthur's customers benefit from being able to ship Ultra LV coal jointly with PCI and coking coals from Dalrymple Bay Coal Terminal, achieving greater flexibility and cost savings in freight and inventory control.

DIAGRAM 1
BLAST FURNACE



GRAPH 2
MARKETS FOR MACARTHUR'S PCI COAL
for the year ended 30 June 2004



TRUCKS BEING INSPECTED AT THE COPPABELLA MINE

MINES: COPPABELLA MINE

THE COPPABELLA MINE IS AN OPEN CUT COAL MINE IN QUEENSLAND'S BOWEN BASIN.THE COPPABELLA RESOURCE IS A LARGE, SHALLOW, COAL DEPOSIT WITH AN AVERAGE SEAM THICKNESS OF APPROXIMATELY TEN METRES.

MARK TURNER, GENERAL MANAGER – OPERATIONS COPPABELLA; MIKE HOBAN, MANAGER – OPERATIONS; MICHAEL COLLINS, MANAGER – TECHNICAL SERVICES, EAST PIT SUPERINTENDENT, DISCUSSING OPERATIONS

The mine's principal product is an 8.5% ash, low volatile PCI coal. The mine also produces Ultra LV coal.

Saleable coal production capacity at the Coppabella Mine is currently 4.2 million tonnes per annum.

Coal mining and coal processing are undertaken by contractors:

- Mining is undertaken by Roche Mining Pty Ltd and Peter Champion Mining Pty Ltd
- Operation of the coal handling and preparation plant is undertaken by the Sedgman Coppabella Joint Venture.

Australian Premium Coals Pty Ltd manages the Coppabella Mine on behalf of the Coppabella and Moorvale Joint Venture participants.

HISTORY

The mining lease over the initial mining area was granted on 1 June 1998. The Coppabella Mine was developed from a greenfields project to a coal producing project in less than twelve months.

Overburden removal commenced in July 1998 with the first shipment of Coppabella coal exported on 6 November 1998.

2004 PERFORMANCE

Coppabella Mine performance was initially limited by:

- The majority of mining operations constrained to the Johnson Pit in the first half of the year pending the relocation of the Transport Infrastructure Corridor (TIC). Strip ratios increased and yield was negatively impacted by poorer quality coal mined from the north of the pit
- A drill and blast failure which disrupted production
- Lack of pit inventories and stockpiles to allow optimal blending of run of mine (ROM) coal to maximise yield
- Heavy rainfall in the three months to February 2004 causing pit flooding.

JOHN MORRIS, MAINTENANCE COORDINATOR, DISCUSSING MAINTENANCE SCHEDULES WITH PAUL CARTER, PROCESS ENGINEER

THE DRAGLINE OPERATING IN THE JOHNSON PIT AT THE COPPABELLA MINE

THE COPPABELLA MINE COAL HANDLING AND PREPARATION PLANT

Changes were initiated during the year to improve performance resulting in record quarterly ROM coal production in the June 2004 quarter of 1,613,400 tonnes (Macarthur's attributable share was 1,182,600 tonnes). The changes included:

- ❖ Completion of the TIC relocation project allowing access to higher quality and shallower coal
- ❖ Increased production by the principal contractor, mining in the second half of the year at an annualised rate of 5.37 million tonnes
- ❖ Successful introduction of a second contractor for a five year term in the East Pit, mining PCI coal and Ultra LV coal.

The changes above resulted in improved stock levels which are expected to be maintained. The ROM stocks are sourced from different areas within the mine and provide increased scope for blending to improve processing yields.

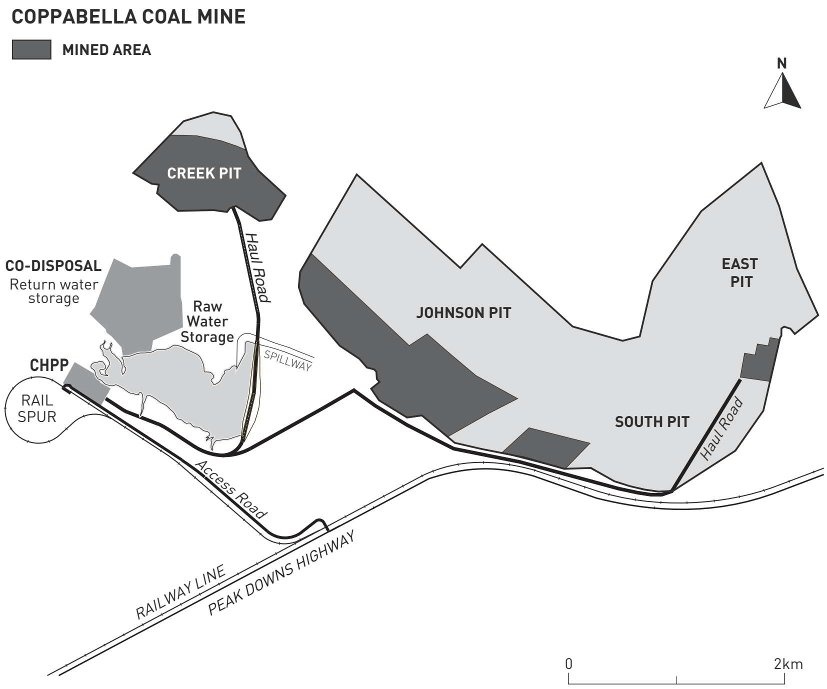
WATER

Critical water shortages in the September 2003 quarter necessitated the disconnection of the codisposal system, but heavy rainfall in December 2003 provided sufficient water to allow the codisposal system to be reconnected.

Rainfall in the March 2004 quarter resulted in water storage reaching levels sufficient to accommodate 2005 production requirements.

TRANSPORT INFRASTRUCTURE CORRIDOR RELOCATION

Prior to December 2003 the higher yielding coal in the South Pit was inaccessible due to a section of the Peak Downs High and Goonyella–Hay Point Railway crossing over the deposit. The TIC relocation involved the relocation of 5.5 kilometres of highway, railway and other infrastructure and was successfully completed in December 2003, providing access to an additional 28 million tonnes of ROM coal.



MOORVALE MINE COAL HANDLING AND PERPARATION PLANT

MINES: MOORVALE MINE

THE MOORVALE MINE IS AN OPEN CUT COAL MINE LOCATED 13 KILOMETRES SOUTH OF THE COPPABELLA MINE IN QUEENSLAND'S BOWEN BASIN. THE DEPOSIT IS SHALLOW, WITH AN AVERAGE SEAM THICKNESS OF NINE METRES.

The Moorvale Mine's principal product is an 8.5% to 9.0% ash low volatile PCI coal. The mine also produces a thermal coal with an ash content of between 13% and 15% depending on customer specifications.

Saleable coal production at the Moorvale Mine is currently 2 million tonnes per annum.

Coal mining is undertaken by Leighton Contractors Pty Ltd and coal processing is undertaken by Sedgman Pty Ltd.

Australian Premium Coals Pty Ltd manages the Moorvale Mine on behalf of the Coppabella and Moorvale Joint Venture participants.

HISTORY

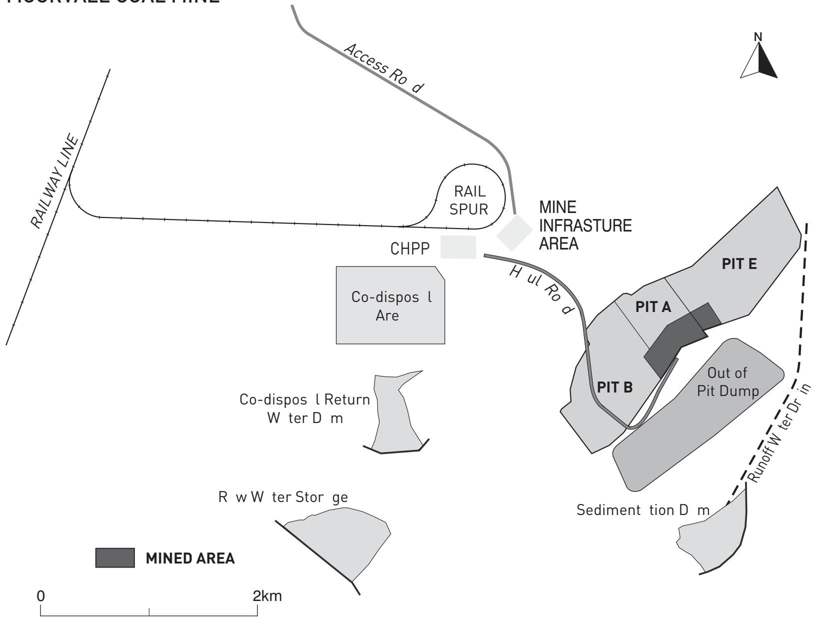
The mining lease over the initial mining area was granted on 5 December 2002. Moorvale was developed from a greenfields project to a coal producing project in twelve months with the first coal train loaded from Moorvale on 6 December 2003.

2004 PRODUCTION

Cumulative run of mine production for the year surpassed the two million tonne milestone. The annual saleable coal production target of 1.5 million tonnes (upgraded from 750,000 tonnes at the beginning of the financial year) was also achieved.

The annual saleable coal production rate has been increased to 2 million tonnes in response to the strong coal market. A second product stockpile will be constructed in 2005 to cater for the increased production and multiple coal products.

MOORVALE COAL MINE



OVERBURDEN REMOVAL IN THE EAST PIT AT THE COPPABELLA MINE

DEVELOPMENT

THE COPPABELLA AND MOORVALE MINES ARE EXAMPLES OF GRASS ROOTS ASSETS WHICH MACARTHUR HAS SUCCESSFULLY DEVELOPED INTO MINES.

EXPLORATION PROJECTS

Macarthur has established an extensive, highly prospective tenement portfolio with a view to continuing its successful track record in mine development.

The Company is formulating its development strategies with respect to its exploration projects.

The status of each exploration project is as follows:

- **West Rolleston EPC 786, EPC 781, EPC 833, EPC 856 and EPC 871:** Shallow resources of thermal coal amenable to open cut mining were identified in a drilling program focused on the southern half of the initial target area. Further drilling and geological modelling is underway to determine the size of the resource.
- **West Moorvale EPC 680:** A shallow, flat lying, undeformed, five to six metre coal seam has been confirmed in the area. A slimcore drilling program to test the EPC's potential as an underground resource is currently being undertaken.
- **Wilunga EPC 688, EPC 721 and EPC 850**: A total of 38 million tonnes of Inferred Resources have been identified. Seismic surveying has recently confirmed an additional 20 kilometres of Inferred shallow crop line of the Rangal Coal Measures. Further stratigraphic drilling will be conducted in 2005 to outline the extent of any potential additional resources.
- **Olive Downs EPC 649:** A mining lease application has been lodged over the initial open cut mining area. Olive Downs is planned as a satellite operation to the Moorvale Mine with the capability of producing up to 1 million tonnes per annum of ROM coal for PCI coal production. Measured Resources at Olive Downs are 26.0 million tonnes. Total resources, including underground resources, are 309.9 million tonnes.
- **West Burton EPC 682, EPC 708 and EPC 836:** A seismic survey has confirmed the existence of well defined coal measures. The area's potential as an underground coal resource is being evaluated. Native title and other approvals are presently being obtained to permit a drilling program.
- **Codrilla EPC 676:** Drilling has defined a Measured Resource of 41.5 million tonnes of which 14.6 million tonnes are at a depth of less than 100 metres. A further 17.9 million tonnes of Indicated Resources have been defined to 180 metres depth. Inferred Resources still await definition. Evaluation of Codrilla as a potential satellite operation to the Moorvale Mine will be progressed in 2005.
- **West Walker EPC 657, EPC 666 and EPC 757:** Scout drilling has demonstrated that the potential for open cut resources is limited. The area's potential as an underground coal resource is being evaluated.

ACQUIRED EXPLORATION PROJECTS

- **Monto Project MLA 80101, EPC 613 and EPC 683**

A mining lease application for the Monto Project is progressing. Monto contains a thermal coal deposit with the potential to provide a coal with less carbon dioxide and nitrous oxide related emissions than most other thermal coals exported from Australia.

Development options include a large scale mine producing up to 10 million tonnes per annum of thermal coal for export or domestic consumption.

The movement in the thermal coal market is encouraging and options to proceed with the Monto Project are currently being assessed.

TRAIN BEING LOADED WITH COAL AT THE MOORVALE MINE

SHANE STEPHAN, GENERAL MANAGER – BUSINESS DEVELOPMENT AND INVESTOR RELATIONS, DISCUSSING THE EXPLORATION PORTFOLIO WITH ANNA MORA, COMMUNICATIONS OFFICER

RESERVES AND RESOURCES

- **Reserve Resource Statement (100% Project Basis) as at 30 June 2004**

	Resources (MT)				Recoverable Coal Reserves* (MT)	Competent Person (Reference)
	Measured	Indicated	Inferred	Total		
Coppabella Mine						
PCI coal	125.80	60.50	19.60	205.90	82.65	1, 2
ULV coal	6.60	21.70	1.20	29.50	19.02	1, 2
Coppabella - Total	132.40	82.20	20.80	235.40	101.67	
Moorvale Mine	45.30		46.00	91.30	29.71	1, 2
Olive Downs						
North - open cut	13.00	5.90	7.00	25.90		4, 5
South - open cut	13.00	2.60	0.40	16.00		4, 5
Underground		268.00		268.00		6
Olive Downs - Total	26.00	276.50	7.40	309.90		
Monto	55.70	66.00	397.00	518.70	22.60	3, 7
Wilunga			38.00	38.00		6
Codrilla	41.50	17.90		59.40		4, 5
Grand Total	300.90	442.60	509.20	1,252.70	153.98	

* All Recoverable Coal Reserves relate to open cut mining operations

The information in this report that relates to Reserves at the Coppabella and Moorvale mines is based on information compiled by David Meldrum **(1)** who is a Member of the Australasian Institute of Mining and Metallurgy. David Meldrum, BE Mining (Hons), MAusIMM, is employed by Minarco Pty Ltd (ABN 30 076 965 323).

The information in this report that relates to Mineral Resources at the Coppabella and Moorvale mines is derived from geological modelling by Mal Blaik **(2)** who is a Member of the Australasian Institute of Mining and Metallurgy. Mal Blaik, BSc App (Geol) (Hons), MAusIMM, is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596).

The information in this report that relates to Mineral Resources at Monto is derived from geological modelling by Greg Jones **(3)** who is a Member of the Australasian Institute of Mining and Metallurgy.

The information in this report that relates to Mineral Resources at Olive Downs and Codrilla is derived in part from geological modelling by Greg Jones **(4)** with information compiled by Lance Grimstone **(5)** who is a Member of the Australasian Institute of Mining and Metallurgy. Inferred Resources at Wilunga and Indicated Underground Resources at Olive Downs were compiled by Lance Grimstone **(6)**.

Greg Jones, BSc (Hons) MAusIMM, MAIG, is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596). Lance Grimstone, BSc (Hons) (Geol), Grad Dipl Mngt, FAusIMM, CPGeo, MMICA, is employed by Lance Grimstone & Associates Pty Ltd (ABN 67 010 508 531).

The information in this report that relates to Reserves at Monto is based on information compiled by Leigh McTavish **(7)** who is a Fellow of the Australasian Institute of Mining and Metallurgy. Leigh McTavish, BE (Hons), FAusIMM, CP is employed by Minserve Group Pty Ltd (ABN 43 010 995 767).

David Meldrum, Mal Blaik, Greg Jones, Lance Grimstone and Leigh McTavish have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 1999 Edition of the "Australasian Code of Reporting of Mineral Resources and Ore Reserves".

David Meldrum, Mal Blaik, Greg Jones, Lance Grimstone and Leigh McTavish consent to the inclusion in the report of the matters based on the information in the form and context in which it appears.

SOCIAL PERFORMANCE

RESPONSIBLE CORPORATE CITIZENSHIP IS A MACARTHUR PRIORITY. THE COMPANY INTEGRATES SOCIAL CONCERNS INTO ITS DAY TO DAY OPERATIONS.

MACARTHUR COAL AWARD WINNER, ANNA BURNETT, WITH CHAIRMAN KEITH DE LACY. PHOTOGRAPH BY DREW FITZGIBBON, THE COURIER MAIL

SOCIAL PERFORMANCE

MACARTHUR ACKNOWLEDGES THAT ITS PEOPLE ARE VITAL TO THE COMPANY'S SUCCESS.

SOCIAL PERFORMANCE - PEOPLE

The following practices support the Company's goal of providing a workplace that is safe and satisfying for all staff:

- **Commitment to health and safety**

Safe production is a company priority. The Company's goal is zero injuries and fatalities. Macarthur is working closely with all mine site personnel to cultivate a culture of safety and vigilance.

The lost time injury frequency rates for both the Coppabella and Moorvale mines, that measures injuries resulting in actual time lost from the workplace per million hours worked, is depicted in Graph 3.

Health and safety performance at the Moorvale Mine achieved the goal of zero injuries and fatalities. At 30 June 2004 the mine had operated for 571 days, including the development phase, without a lost time injury.

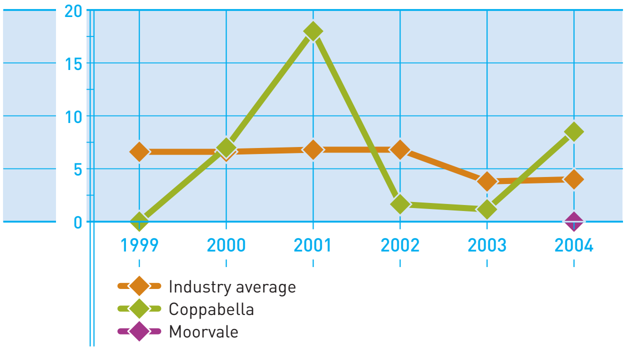
Health and safety performance at the Coppabella Mine was disappointing. Management is focussed on improving health and safety performance.

Macarthur has implemented the following initiatives in support of the goal of zero injuries and fatalities:

GRAPH 3

LOST TIME INJURY FREQUENCY RATE SURFACE COAL MINING INDUSTRY vs COPPABELLA vs MOORVALE for the years ended 30 June

Number of lost time injuries per million hours worked



- A full time Health, Safety and Compliance Manager was employed in May 2004 to ensure that mine site operations comply with the Coal Mining Safety and Health Act and regulations and to manage the risk profiles of mine site operations.
- Macarthur recognises that fitness positively benefits health and safety performance and the general well-being of personnel. The Company sponsors a mobile gym for the use of mine site personnel, their families, and the Nebo community. The gym operates at no charge on a weekly basis at the Nebo community hall. The gym, coordinated by City Fitness of Mackay, is well patronised by the local community, particularly the Nebo State School.
- The Working Bodies Program, first implemented in 2003, was reintroduced for mine site personnel in July 2004. The program is tailored to the specific health needs of the mine site workforce, providing guidance in areas such as nutrition, exercise and stress management. Benefits reported from the 2003 program included weight loss, improved levels of body fat and improvements to blood pressure.

STEVE EDEN OF CITY FITNESS IN MACKAY, SETTING UP THE MOBILE GYM AT THE NEBO COMMUNITY HALL

SHONTEL NORGATE, FINANCIAL CONTROLLER LEADING A PROFESSIONAL DEVELOPMENT SEMINAR WITH KIM SMITHARD, PERSONAL ASSISTANT; SARAH GOSCOMB, OFFICE MANAGER AND EMMA HOLLOWAY, ASSISTANT ACCOUNTANT

- **Commitment to workplace satisfaction**

Remunerating appropriately

Remuneration levels are set to attract and retain the best people for the Macarthur team and to reward outstanding performance. The Remuneration Policy, including incentives such as bonuses and employee loans for the purchase of Macarthur shares, is detailed in the Corporate Governance section on page 28.

Promoting professional development

Professional development is actively promoted to ensure that employees have the skills and knowledge to perform their jobs to the best of their ability. The identification of training goals is part of annual performance reviews.

Memberships and participation in professional organisations is encouraged to assist staff to remain abreast of industry developments.

Throughout 2004 relevant staff attended courses and conferences on topics ranging from health and safety and the technical components of mining through to updates on accounting practices, foreign exchange hedging, leadership and administration.

Internal professional development seminars further promote staff development and encourage teamwork and knowledge sharing.

It is also Macarthur's policy to provide financial assistance to staff undertaking further study related to their current role.

Promoting equity

Macarthur believes that equity is essential for achieving a satisfying workplace. The Company's Employment Policy and Corporate Code of Conduct provide staff with guidelines on their entitlements and obligations with respect to achieving a workplace free of harassment, discriminatory employment practices and unethical business practices.

It is pleasing that no incidents of harassment, inequality of employment or unethical business conduct were reported during the year.

Fostering open communication

A great deal of importance is placed on open and frank communication at all levels within the organisation. Management meetings, staff meetings and team meetings occur on a regular basis to ensure employees are aware of Company priorities.

In 2004 all staff participated in discussions to develop a set of Company priorities that were approved by the board in August 2004.

SOCIAL PERFORMANCE - COMMUNITIES

Responsible corporate citizenship involves contributing to the community. During 2004 Macarthur contributed in the following ways:

- **Supporting the education of youth**
  - Macarthur sponsored 13 year old Monto schoolgirl Lauren Kirk's representation of Australia at the International Children's Conference on the Environment in the USA.
  - The Shares for Schools Program was extended to 24 Queensland schools in July 2004. Schools receive a $2,000 parcel of Macarthur shares held in trust for two years.

  Macarthur funds the attendance at the AGM of a student and a teacher from each of the schools.

  Participating students are invited to produce a report on their experience. Anna Burnett of Biloela State High School produced the winning report in 2004 and was awarded a $5,000 contribution to university fees. Anna is completing grade 12 and hopes to commence a business or accounting degree in 2005.

- **Contributing to the communities affected by the Company's operations**
  - Macarthur contributed to the establishment of a vocational and training facility in Moranbah relevant to the needs of the mining and engineering services sector. The initiative is a collaboration between regional industry, Moranbah State High School and Central Queensland TAFE.

    It is hoped that the establishment of the training facility will encourage more families to stay in the region, rather than relocate to coastal centres to access further education.
  - Macarthur also supported the establishment of a community medical centre at Nebo. Nebo has been without a doctor for a number of years with residents having to drive as far as Mackay to consult a doctor. It is hoped the centre will commence operation in December 2004.

- **Monitoring the impact of the Company's operations on communities**

In 2003 the Central Queensland University was commissioned to undertake a study into the social and economic impact of the Coppabella Mine on the Nebo Shire and the Mackay Region. The aim of the research was to identify opportunities to enhance community relations.

The report concluded that on the whole the residents of Nebo Shire, "accept mining and believe it brings positive benefits to their Shire and region, particularly in relation to job opportunities, roads and telecommunications and services such as the permanent ambulance officer and private businesses."[1]

Residents also reported a desire for more communication with Coppabella Mine executives. In response, Australian Premium Coals' management is working with the community to organise a local newsletter. It is hoped that other mining companies in the area will also participate and that the first newsletter will be produced by the end of December 2004.

1. *Source: Page xii. Economic and Social Impacts of the Coppabella Mine on the Nebo Shire and the Mackay Region: John Rolfe, Stewart Lockie and Maree Franettovich, Central Queensland University, Centre for Social Science Research, April 2003.*

ENVIRONMENTAL PERFORMANCE

MACARTHUR VALUES THE ENVIRONMENT AND IS CONSCIOUS OF ITS ENVIRONMENTAL FOOTPRINT. THE COMPANY AIMS TO:

- **MAXIMISE THE ECONOMIC RECOVERY OF COAL**
- **MINIMISE THE CONSUMPTION OF RESOURCES IN THE PRODUCTION PROCESS**
- **MINIMISE THE ENVIRONMENTAL IMPACT ON THE AREAS AFFECTED BY ITS OPERATIONS.**

SCOTT GOLDING, ENVIRONMENTAL COORDINATOR AND GUS WINDSOR, SCRAPER OPERATOR, DISCUSSING TOPSOIL REMOVAL PRIOR TO MINING OPERATIONS

ENVIRONMENTAL PERFORMANCE

THE PRINCIPAL OBJECTIVE OF LAND REHABILITATION IS TO CREATE STABLE FINAL LANDFORMS THAT ARE ADEQUATELY VEGETATED AND DRAINED AND COMPLEMENT THE EXISTING LANDSCAPE.

The Coppabella and Moorvale mining operations follow the procedures set out in the Environmental Impact Statements, Environmental Management Overview Strategies, Plans of Operations and site specific management plans. The documents and any amendments are subject to approval by the Environmental Protection Agency (EPA). Environmental matters at the Coppabella and Moorvale mines and exploration sites are managed by an Environmental, Community and Government Liaison Advisor and a full time Environmental Coordinator.

The EPA visited the Coppabella and Moorvale mines for a planned compliance inspection in February 2004 and no material compliance issues were raised.

ENVIRONMENTAL TRAINING

Macarthur and its contractors provide training in environmental awareness as part of each employee's induction process at the Coppabella and Moorvale mines. Additional training is also provided if deemed necessary by environmental personnel.

Environmental training covers areas such as waste minimisation practices, water management, weed and pest management, cultural heritage and environmental incident reporting obligations.

REHABILITATION

The principal objective of land rehabilitation is to create stable final landforms that are adequately vegetated and drained and complement the existing landscape.

Prior to mining, topsoil is removed and stockpiled for use in the rehabilitation process. Handling of topsoil is carefully managed to minimise damage to the integrity of the soil and to limit loss due to wind and water erosion.

Planning is also undertaken to direct surface water drainage from all areas of disturbance to sediment dams as required.

Once an area has been mined and is not subject to further disturbance the landform is reprofiled and topsoiled. The area is then seeded, fertilised and mulched to promote vegetation growth.

In 2004 rehabilitation work was undertaken on 67 hectares at the Coppabella Mine and 10 hectares at the Moorvale Mine.

Rehabilitation in 2005 is planned for 91 hectares at the Coppabella Mine and 8.5 hectares at the Moorvale Mine.

The Coppabella and Moorvale mines are located on land that was formerly impacted by cattle grazing and selective clearing.

Post rehabilitation, the land at the Coppabella Mine will be returned to a state similar to the standard prior to grazing. The rehabilitated land use is intended to be a flora and fauna conservation area and Aboriginal cultural training area. Revegetation is to focus on native plant species of importance to the traditional Aboriginal lifestyle as part of an agreement with the Traditional Owners of the area.

At Moorvale revegetation will focus on pasture species suitable for cattle grazing and vegetation native to the area.

WASTE MINIMISATION AND MANAGEMENT

All waste produced as a result of the Company's mining operations is managed in strict compliance with EPA requirements.

Waste products such as oils and greases, hydrocarbon contaminated materials and general wastes are removed from site by registered contractors. Tyres are buried in accordance with EPA requirements.

The Coppabella Waste Management Plan was developed during the year and is undergoing a review and approval process by the EPA.

Waste is minimised wherever possible. Products with excessive packaging are avoided and use of fully or partially recyclable products is encouraged.

Recyclable waste such as office paper and cardboard is disposed of in recycling bins and collected from site by licensed recycling contractors.

At Macarthur's corporate headquarters, laser printer cartridges, fax and ink cartridges and photocopier bottles are collected for reuse or recycling. Non-confidential paper documents are stored and used for drafting and confidential documents are collected, shredded, pulped and recycled.

RISING STAGE WATER SAMPLER USED TO MONITOR WATER QUALITY

SCOTT GOLDING, AUSTRALIAN PREMIUM COALS ENVIRONMENTAL COORDINATOR, MONITORING REHABILITATION AT THE COPPABELLA MINE

WATER MANAGEMENT

Water is critical to the economic viability of the mine operations and water conservation is a priority.

The aim of the water management systems at the Coppabella and Moorvale mines is to reduce the requirement for importing water and to ensure no contaminated water is released off site.

Water is recycled whenever possible. Surface and ground water is captured and directed to site dams. A network of sediment dams is used to allow suspended material to settle, thereby providing clean water for use in site operations.

Heavy rainfall in the three months to February 2004 caused pit flooding. The excess water was managed in accordance with EPA requirements.

RESEARCH FUNDING

As a black coal producer Macarthur contributes a 5 cent levy to the Australian Coal Association Research Program (ACARP) for every tonne of coal sold.

ACARP uses the funding to research, develop and demonstrate technologies that lead to the safe sustainable production and utilisation of coal.

Research areas include: greenhouse gas mitigation, safety and occupational health, the environment, rehabilitation of mined land, community concerns and land access, cost of production and technical support for marketing Australian coals.

ENVIRONMENTAL INITIATIVES

Macarthur regards compliance with the applicable laws relating to environmental management as the minimum requirement for its operations and undertakes the following voluntary initiatives:

- **Greenhouse Challenge**

The Greenhouse Challenge is an initiative between the Commonwealth Government and industry to reduce greenhouse gas emissions. Australian Premium Coals, as the Manager of the Coppabella and Moorvale mines, is a signatory to the initiative and signed an agreement with the Government in May 2000 to provide a framework for undertaking and reporting on actions to reduce emissions.

The report for 2004 is due to be produced in October 2004 and will be accessible on the Greenhouse Challenge website: http://www.greenhouse.gov.au/index.html

- **Australian Centre for Mining Environmental Research (ACMER)**

Macarthur is a sponsor of an ACMER project which is researching procedures to improve the identification and management of dispersive soils. The Coppabella Mine is adversely impacted by highly dispersive topsoil and overburden.

Further research will be used to determine means of predicting erosion rates, developing recommendations for measuring dispersion and investigating new waste dump designs for new and existing spoil materials.

LEADERSHIP AND MANAGEMENT

MACARTHUR'S BOARD PROVIDES GOALS AND STRATEGIC GUIDANCE AND OVERSEES THE MANAGEMENT OF THE COMPANY ON BEHALF OF ITS SHAREHOLDERS.

THE CEO PROVIDES LEADERSHIP AND DIRECTION IN ACCORDANCE WITH THE BOARD'S GUIDELINES.

MACARTHUR'S MANAGEMENT TEAM IS RESPONSIBLE FOR ACHIEVING THE COMPANY'S GOALS.

THE COMPANY'S CORPORATE GOVERNANCE SYSTEM ENSURES THAT THE BEST INTERESTS OF SHAREHOLDERS ARE UPHELD AT ALL TIMES.

BOARD OF DIRECTORS

HON. KEITH DE LACY

ROGER MARSHALL

HON. KEITH DE LACY, 64

BA, HonDLitt, DUniv, QDA, FAICD, FAIM

- **Chairman**
- **Independent, non-executive director**

  appointed 2 May 2001

Keith's wide ranging business experience includes farming and small business ownership in the early stages of his life, followed by more than six years as Queensland Treasurer, and in the latter part of his career, a professional company director.

The duration of Keith's appointment as State Treasurer and Member of Parliament demonstrates his leadership qualities and suitability for the role of Macarthur Coal Chairman.

Both the Audit and Risk Management Committee and the Nomination and Remuneration Committee benefit from Keith's commercial experience, his career overseeing teams of finance professionals and his years of involvement with numerous corporate boards.

Keith regularly features as an authoritative speaker/panellist on corporate governance and is a councillor of the Queensland Division of the Australian Institute of Company Directors.

His contribution to business and the community has been recognised with the Centenary Medal in 2003 and two honorary degrees from Queensland universities.

Membership of Macarthur board committees:

- ❖ Nomination and Remuneration Committee Chairman, appointed 13 June 2003
- ❖ Audit and Risk Management Committee member, appointed 18 February 2003

- **Other directorships:**
- **Chairman**
  - ❖ Queensland Sugar Ltd
  - ❖ CEC Group Ltd
  - ❖ Trinity Funds Management Ltd
  - ❖ Advance Cairns Ltd
  - ❖ Creative Industries Precinct Pty Ltd

Keith is also Chairman of the Red Shield Appeal (Cairns) and the Cairns Centre of Contemporary Arts.

- **Director**
  - ❖ Reef Casino Trust (Reef Corporate Services Ltd)
  - ❖ Securities Exchanges Guarantee Corporation Ltd
  - ❖ Macarthur Diamonds Ltd

Keith was previously Chairman of Ergon Energy Corporation Ltd and a director of Queensland Investment Corporation.

ROGER MARSHALL, OBE, 65

BE, MAusIMM, FAIM, FAICD

- **Deputy Chairman**
- **Non-executive Director**

  appointed 2 May 2001

Roger provides the Macarthur board with an in depth knowledge of the coal industry based on 40 years' domestic and international experience, including management, marketing, finance and operational roles.

Roger is a well respected member of the Queensland mining community, having held the roles of Chairman of both the Queensland and Australian Coal Associations. He was also on the board of the World Coal Institute and a member of the Coal Industry Advisory Board of the International Energy Agency. He has been an executive director and non-executive director of listed public companies since 1986.

The Nomination and Remuneration Committee benefits from Roger's experience as an executive and line manager in the mining industry and from his industry contacts.

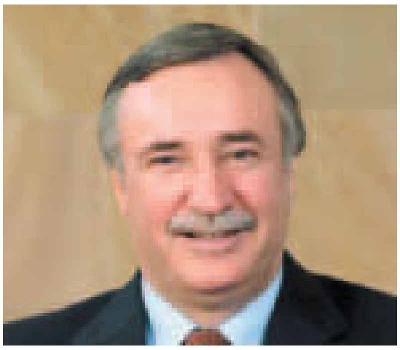
Roger's contribution to the mining industry was recognised when he was made an Officer of the Order of the British Empire in 1989 for services to the coal mining industry.

Membership of Macarthur board committees:

- ❖ Nomination and Remuneration Committee member, appointed 13 June 2003

- **Other directorships:**
- **Chairman**
  - ❖ Queensland Ores Ltd
  - ❖ Macarthur Diamonds Ltd
- **Deputy Chairman**
  - ❖ CITIC Australia Trading Ltd

DON NISSEN



KEN TALBOT

PETER FORBES

DON NISSEN, 60

FAIM, FAICD

- **Independent, non-executive Director**

  appointed 2 May 2001

Don has more than 40 years' experience in banking and finance including ten years as the Queensland General Manager for the Commonwealth Bank.

The board benefits from Don's financial sector perspective, especially his knowledge of the fundamental financial drivers that impact business.

Don's knowledge of business and financial risk and his experience in senior management roles for a major financial institution, make him ideally suited to provide the leadership and scrutiny necessary for the efficacy of the Audit and Risk Management Committee.

His contribution to business and commerce was recognised with the Centenary Medal in 2003.

Membership of Macarthur board committees:

- Audit and Risk Management Committee Chairman, appointed 18 February 2003

- **Other directorships:**
- **Chairman**
  - Brisbane Broncos Ltd
  - Energex Ltd
- **Director**
  - Ariadne Ltd
  - Energex Retail Pty Ltd
  - Macarthur Diamonds Ltd
  - School Sport Foundation
  - Workcover Queensland

KEN TALBOT, 54

BE, ME, ASIA, FAICD, FAusIMM

- **Managing Director/Chief Executive Officer**

  appointed 2 May 2001

Ken began his career as a cadet mining engineer in 1971. His 33 years' industry experience includes 16 years coal mine ownership.

Ken's management and operational leadership ability is demonstrated by his involvement in the development of five mines, including the Coppabella and Moorvale mines which were developed from grassroots to production in a 12 month timeframe.

The Nomination and Remuneration Committee benefits from Ken's experience as an executive and line manager in coal companies and from his contacts in the coal industry.

Ken's contribution to the mining industry was recognised with the Centenary Medal in 2003.

Membership of Macarthur board committees:

- Nomination and Remuneration Committee member, appointed 13 June 2003

- **Other directorships:**
- **Chairman**
  - Australian Premium Coals Pty Ltd
  - Coppabella and Moorvale Joint Venture Management Committee
- **Director**
  - Queensland Resources Council

Ken is also a board member of the Zoe Reed Little Bridge House Association.

PETER FORBES, 56

FCPA, FCIS, FAICD, SIA (Affil.)

- **Independent, non-executive Director**

  appointed 14 November 2003

The board benefits from Peter's 31 years' experience in senior financial and corporate management roles, including 14 years as Deputy Chief Executive and Executive General Manager – Equities for Queensland Investment Corporation, one of Australia's largest wholesale fund managers.

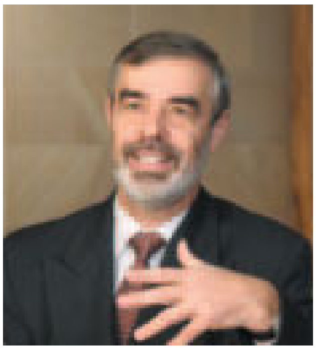
Peter is also well versed in board and corporate governance procedures gained from his involvement across a broad spectrum of Australian business. The board benefits from his extensive knowledge and experience of the equities market with particular emphasis on analytical research of company operations.

Peter's addition to the Audit and Risk Management Committee provides additional financial expertise resulting from his training and experience as an accounting and finance executive.

Membership of Macarthur board committees:

- Audit and Risk Management Committee member, appointed 14 November 2003

NICOLE HOLLOWS



BOB ADAMS

SHANE STEPHAN

GARY LEE

MANAGEMENT

THE COMPANY HAS ASSEMBLED AN EXPERIENCED AND DEDICATED MANAGEMENT TEAM TO OVERSEE THE OPERATION AND DEVELOPMENT OF ITS INTERESTS.

The management team is accountable to the board for the effective management of operational matters.

NICOLE HOLLOWS, 33

Chief Financial Officer

BBus (Acctg), Grad Dip CSP, Grad Dip Adv Acctg (Dist), ACIS, CA

Nicole is responsible for all Macarthur's commercial, financial and taxation business.

She brings over 6 years' chartered accounting experience to her role in addition to the four years she spent as the Company Secretary and CFO at Australian Premium Coals Pty Ltd prior to commencing as Chief Financial Officer in 2002.

Macarthur also benefits from Nicole's expertise and knowledge as a Registered Tax Agent, Queensland Branch Councillor for Chartered Secretaries Australia and committee membership of the School Advisory Committee for the Queensland University of Technology (QUT) School of Accountancy.

BOB ADAMS, 50

Company Secretary

BBus (Acctg), Grad Dip CSP, ACIS, CA, GAICD

Bob is responsible for the administrative support of the Macarthur board, compliance with the ASX Listing Rules and all shareholder reporting.

Bob has worked at Macarthur since its inception in 2001. Macarthur benefits from his more than 23 years' mining industry experience as well as experience in the accounting profession.

SHANE STEPHAN, 41

General Manager – Business Development and Investor Relations

B Bus (Dist), MBA (AGSM), Certified Mine Manager

Shane is responsible for implementing Macarthur's growth strategy and investor relations functions.

Shane draws on substantial coal mining industry experience in addition to experience in investment banking for his role.

His career began as a cadet mine manager in 1981 and led to various senior in-line management positions in Central Queensland coal mines, including former General Manager of Australian Premium Coals Pty Ltd.

Shane previously held the position of District Inspector of Mines in Queensland and was a member of the Coal Industry Health and Safety Advisory Council in Queensland.

GARY LEE, 49

Executive President – Sales and Marketing

B App Sc Hons

Gary is responsible for the sales and marketing of all coal types from the Coppabella and Moorvale mines.

Gary has extensive experience in the coal industry in various technical and marketing roles. The initial years were spent in coal technology roles including carbonisation research, coal preparation and utilisation.

Gary has held a number of senior marketing positions and has developed extensive experience in all of Australia's major coal markets for both metallurgical and thermal coal.

THE MACARTHUR BOARD DISCUSS THE COMPANY'S TENEMENT HOLDINGS

CORPORATE GOVERNANCE

GOOD CORPORATE GOVERNANCE ENCOURAGES SHAREHOLDER VALUE CREATION.

The Macarthur board acknowledges that stakeholders require high levels of accountability from their board and management and undertakes to provide accountability levels which meet or exceed the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

Macarthur is pleased to advise that it met all of the requirements of the Corporate Governance Council's Best Practice Recommendations during the year.

Symbols, similar to this (XX) have been inserted throughout the governance section. They are numbered to indicate the recommendation that has been met.

The ASX Corporate Governance Council's recommendations are provided for reference in the Additional Shareholder Information section of this report on page 89 to 90.

The term 'corporate governance' refers to the way companies are directed and managed. Good corporate governance encourages shareholder value creation (through entrepreneurism, innovation, development and exploration) and provides accountability and control systems appropriate to risk.

Details of the Company's corporate governance practices and progress in 2004 are detailed below.

ROLE OF THE BOARD

The board's primary role is the protection and enhancement of long term shareholder value.

The board has responsibility for the effective oversight of the consolidated entity, guiding and monitoring its activities to ensure proper management and constant improvement.

Board responsibilities are summarised below:

- Approving, evaluating and monitoring strategic objectives, plans and budgets
- Approving and monitoring the progress of major expenditure, acquisitions/divestments and business operations
- Monitoring and managing the CEO's performance and succession planning
- Ratifying the appointment/removal of senior management
- Identification of acceptable risk, implementing and monitoring the risk management system, including the internal control system
- Approving half yearly and annual financial reports.

Further details are provided in the Board Charter (1.1) and Directors' Code of Conduct (3.1).

Macarthur's corporate governance documents are located in the Corporate Governance section of the Macarthur website:

http://www.macarthurcoal.com.au/corporate_governance/index.php

The documents are:

- Board Charter (1.1), approved 14 August 2003
- Audit and Risk Management Committee Charter (4.4), (4.5), including the procedures for the selection, appointment and rotation of external audit partners, approved 12 March 2004
- Nomination and Remuneration Committee Charter (2.5), (9.5), approved 8 April 2004
- Corporate Code of Conduct (3.1), (3.3), (10.1), approved 14 August 2003
- Directors' Code of Conduct (3.1), (3.3), approved 14 August 2003
- Continuous Disclosure Policy (5.1), (5.2), approved 3 December 2002
- Share Trading Policy (3.2), (3.3), approved 13 November 2002
- Shareholder Communication Policy (6.1), approved 13 May 2004
- Risk Management Policy (7.1), (7.3), approved 7 July 2004.

The day to day operational, financial, and administrative management of Macarthur has been delegated to the Chief Executive Officer (CEO) whose experience and expertise is detailed on page 23 of this report.

The roles of Chairman and CEO are not exercised by the same individual (2.3).

BOARD PROCESSES

The board generally convenes monthly with supplemental meetings convened for matters requiring additional discussion. Fifteen meetings were held during the year.

The Company Secretary is responsible for the efficient administration of the board, including preparation and distribution of board agendas and papers, maintenance of corporate governance documents and compliance with Common Law, the Corporations Act and the ASX Listing Rules. The Company Secretary is also the point of contact for all shareholder enquiries.

Board meeting agendas are developed in consultation with management and the Chairman. Standard agenda items include marketing, operations, financial performance, investor relations and business development. Agendas and board papers are provided to the board before meetings to allow sufficient review time.

Board meetings are structured to involve management participation, however, a portion of each meeting is attended by directors only to facilitate the board's independent deliberation.

The board has established two committees:

- Audit and Risk Management Committee (first convened in February 2003 as an Audit Committee, expanding its role to the Audit and Risk Management Committee in June 2003) 4.2
- Nomination and Remuneration Committee (first convened in July 2003) 2.4, 9.2

The committees convene separately from regular board meetings to ensure that the required time commitment and expertise can be devoted to committee matters. Additionally, special committees with board member participation, are formed when required, for example, a due diligence committee for a capital raising.

Details of attendance at board and committee meetings is provided on page 34.

DIRECTOR EDUCATION

- **Director induction**

Peter Forbes, appointed as a director at the Annual General Meeting in November 2003, is the first director to be appointed following listing on the ASX. His induction involved:

- Provision of an induction pack containing copies of annual reports and prospectuses, organisational charts, monthly management reports, the Macarthur Constitution and corporate governance documents
- Granting of access to board papers
- Meetings with management to discuss targets and performance in respect of marketing, operations, financial performance, investor relations and business development
- A visit to Macarthur's mining operations.

- **Ongoing education and due diligence**

Directors are members of professional associations, for example, Australian Institute of Company Directors, Australian Institute of Management, Securities Institute of Australia, Chartered Secretaries of Australia, CPA Australia and Australian Institute of Mining and Metallurgy. Board members are encouraged to attend conferences, seminars and professional education programs on a regular basis.

Directors also visit Macarthur's mining operations and customers and marketing agents as part of their commitment to staying abreast of industry, company and corporate governance developments. It is board policy for directors to report to the board on the outcome of any visits undertaken on behalf of the consolidated entity.

INDEPENDENT ADVICE AND ACCESS TO COMPANY INFORMATION

Macarthur directors individually and collectively bring considerable knowledge and expertise to the consolidated entity and are free to seek additional professional advice when necessary with costs met by the consolidated entity. The advice, which requires prior Chairman approval, may be circulated to the board at the discretion of the Chairman. 2.5

COMPOSITION OF THE BOARD

The board is structured to add value. Collectively, board members provide the desired balance of skills and experience to efficiently oversee the business of Macarthur as a participant in coal mining and exploration joint ventures. Expertise includes coal mine operations, project development, corporate governance, capital markets, banking, government and marketing.

Consideration is also given to the dynamic between board members and the board as a whole. It is regarded as essential that board members be able to speak freely among themselves and with management to aid unrestricted due diligence. Directors have frequent contact with management.

The Chairman of the board is a non-executive, independent director. 2.2

The appointment of Peter Forbes bolstered board expertise in equity markets and enhanced the mix of skills and experience on the board's committees. Five directors are considered appropriate to efficiently direct and monitor management and ensure the efficacy of the two board committees without overburdening directors.

In accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, a director is deemed independent if free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the exercise of unfettered, independent judgment.

Keith De Lacy, Don Nissen and Peter Forbes are classed as independent directors 2.5. Each of these directors:

- Holds less than 5% of Macarthur's ordinary shares and is not an officer of or otherwise associated directly with a shareholder with 5% or more of Macarthur's ordinary shares
- Has never been employed as an executive by Macarthur or its group members
- Has never been a consultant or an advisor to Macarthur or its group members
- Has never been a customer or supplier to Macarthur or its group members
- Has no contractual relationship with Macarthur or group members other than as a director and shareholder
- Is free from any interest and any business relationship which could be perceived to materially interfere with the director's ability to act in the best interests of Macarthur.

The independent status of directors did not change during the year. The appointment of Peter Forbes positioned the board with a majority of directors that are independent 2.1. Roger Marshall, whilst a non-executive director, is classified as non-independent because he receives a consulting fee of $100,000 for directing the exploration program. Ken Talbot remains a non-independent director as an executive of Macarthur and as a shareholder with 43.6% of the issued capital.

Directors declare their personal material interests to the board as they arise to provide the board with standing notice of potential conflicts of interest and factors that may affect independence. Any director with an interest in a transaction is required to withdraw themselves from the board decision making process.

One third of directors (excluding the Managing Director) must retire from office each year. The number of directors retiring will be greater than one third if the number of directors (excluding the Managing Director) on the board is not divisible by three. Retiring directors may be re-elected.

NOMINATION AND REMUNERATION COMMITTEE

Responsibility for ensuring that the board comprises individuals best able to discharge the responsibility of directors and that remuneration arrangements are equitable and transparent is delegated to the Nomination and Remuneration Committee comprising:

- Keith De Lacy, Chairman – independent, non-executive director
- Roger Marshall, non-executive director
- Ken Talbot, executive director.

Although the majority of members are non-executive directors as opposed to a majority of independent directors, the committee believes it has a level of independence necessary to be effective and to provide impartial recommendations to the board. Roger Marshall receives a fixed fee to direct the exploration program. The board has determined that Roger's exploration management arrangement does not interfere with his ability to provide independent judgment on committee issues.

The committee met four times during the year. Further details on attendance are set out on page 34. 9.5

Nomination responsibilities

The Nomination and Remuneration Committee is responsible for:

1. Determining the skills and competencies necessary for the efficacy of the board
2. Establishing guidelines for the evaluation of board members and the board
3. Recommending the removal or appointment of directors
4. Identifying suitable candidates for appointment to the board.

During the year the Chairman, in consultation with the board and CEO, established a list of skills and competencies desirable for the efficacy of the board and it was agreed that additional expertise in equity markets would be beneficial.

Peter Forbes was identified as a suitable candidate for a fifth director based on his background in accounting and the equities market. The appointment was approved by shareholders at the AGM in November 2003.

The policy and procedure for selection and appointment of directors is set out in the Nomination and Remuneration Charter. The charter is located on the Macarthur website. 2.5

In May 2004 the Nomination and Remuneration Committee Chairman evaluated board, committee and CEO performance efficacy and membership 8.1 based on feedback from board members and management. Consideration was also given to directors' adherence to the Directors Code of Conduct and the Corporate Code of Conduct. No incidents of non-compliance occurred during the year.

The evaluation determined that all directors bring desired skills and competencies to the board. The board therefore supports the reelection of Keith De Lacy and Don Nissen who are subject to retirement and reelection at the AGM in November 2004.

Remuneration report

Remuneration responsibilities

The Nomination and Remuneration Committee is also responsible for:

1. Reviewing and making recommendations on the appropriateness and relevance of the remuneration policy, including the requirement where necessary for shareholder approval for remuneration practices
2. Considering the remuneration of executive and non-executive directors and management and making recommendations to the board
3. Recommending the design and total proposed payments for all management incentive plans.

◆ Remuneration policies 9.1, 9.5

Remuneration levels are set to fall within the market range for comparable companies with the flexibility to attract and retain the best people for the Macarthur team.

The committee formally reviewed Macarthur's remuneration policy in December 2003. The review identified a need for more structured guidelines with respect to incentives and bonuses. The CEO worked with management to produce a revised set of key performance indicators (KPIs) for management which are aligned with Macarthur's strategy. The KPIs were presented to the board in July 2004. KPIs are now being developed for all personnel to complement the KPIs of management.

Performance will be measured against KPIs and outstanding performance will be recognised and remunerated accordingly. The committee has determined that bonuses will not exceed 20% of a full time employee's salary, except in exceptional circumstances, and will be determined with due consideration of Macarthur's overall performance relative to its budget and the individual's personal performance.

This bonus policy is intended to ensure equitable application of incentive based remuneration and will be monitored by the committee to ensure that it achieves the goal of encouraging employees to maximise the consolidated entity's performance and sustainable shareholder return.

Shareholding by staff and contractors' mine site employees is encouraged to align employee interests with shareholder interests. Macarthur plans to provide practical support to eligible employees by offering interest free loans to fund onmarket Macarthur share purchases. Loans are to range from $3,000 to $10,000 per year depending on seniority. Employees will be entitled to use the loan facility annually to build on their existing shareholding.

Shareholders approved an increase from $150,000 to $220,000 in the total amount payable to directors at the AGM in November 2003. The increase accommodated the addition of a fifth director.

The workload, responsibilities, and liabilities for directors has increased substantially over the last three years. Macarthur intends to increase payments to each director. At the Annual General Meeting shareholders will be asked to approve an increase in total non-executive directors' fees to $350,000 to accommodate director remuneration increases.

The proposed total remuneration for each non-executive director includes an obligation to take Macarthur Coal shares to the value of $10,000 in lieu of cash, in order to strengthen alignment with shareholder interests.

The allocation of fees to non-executive directors will be 9.3:

	Current fees $	Proposed fees $
Base fees	$35,000	$45,000 plus $10,000 of Macarthur Securities
Fee for committee participation	$5,000	$10,000
Fee for chairing the board	$20,000	$25,000
Fee for chairing the Audit and Risk Management Committee	$10,000	$15,000

Non-executive directors do not receive any performance related remuneration nor do they receive any retirement benefits. 9.5

Details of non-executive and executive remuneration are provided on page 37. 9.3

Equity based executive remuneration is limited to the Executive Option Plan established in 2001 and disclosed in the IPO prospectus. No options have been granted since 5 July 2001. 9.4

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee 4.2 oversees financial reporting, risk management and disclosure processes and comprises 4.3, 4.5:

- Don Nissen, Chairman – independent, non-executive director
- Keith De Lacy, independent, non-executive director
- Roger Marshall, retired 14 November 2003 – non-executive director
- Peter Forbes, appointed 14 November 2003 – independent, non-executive director.

Audit and Risk Management Committee members have financial expertise. The qualifications of Audit and Risk Management Committee members are set out on pages 22 and 23 4.5. The committee consists only of independent directors and is chaired by an independent Chairman who is not the Chairman of the board.

The committee first met as an Audit Committee in February 2003 with responsibilities broadened to encompass risk management in June 2003. The committee's charter was reviewed accordingly and an amended charter was adopted on 12 March 2004 4.4. The charter includes procedures for the selection and appointment of the external auditor and the rotation of external audit engagement partners. 4.5

The Audit and Risk Management Committee met seven times in 2004. Further details on attendance are set out on page 34. 4.5

◆ Audit function

The Audit and Risk Management Committee has responsibility for ensuring:

1. The adequacy and efficacy of the accounting system
2. Accounting policies are appropriate and consistent with Australian Accounting Standards and generally accepted accounting principles
3. The independence, objectivity, scope and quality of external audits. KPMG were appointed auditors on 22 June 2001 and Macarthur has had the same engagement partner since the appointment. It is Macarthur's intention to support the principle of rotation of audit engagement partners
4. The review and monitoring of related party transactions and compliance with director related party transaction regulations
5. The integrity and quality of external financial reporting including the convergence of reporting with the International Financial Reporting Standards

The Audit and Risk Management Committee provides the external auditor with an opportunity to report to the board without the presence of management and to raise issues at an early stage in an uninhibited manner. The committee is empowered to seek unrestricted advice from Macarthur employees, external auditors and appropriate external advisors.

The Chief Financial Officer, the Financial Controller and the Company Secretary attended all committee meetings at the committee's invitation. The External Auditor attended two meetings at the committee's invitation to discuss the external audit and externally distributed annual reports.

The Chief Executive Officer and the Chief Financial Officer provided written confirmation to the board that Macarthur's financial report for the year ended 30 June 2004 presented a true and fair view in all material respects of the consolidated entity's financial condition and operational results and are in accordance with the relevant accounting standards to the best of their knowledge (4.1).

◆ Risk management function

The Audit and Risk Management Committee is also responsible for ensuring that Macarthur maintains a structured and documented approach to risk management that is integrated with its day to day activities.

◆ Implementation of the risk management system

The Audit and Risk Management Committee contracted the services of a risk management consultant to facilitate development of the risk management system which was established in June 2004.

◆ Risk management compliance and control

Each business unit has developed a risk register detailing events with the potential to cause loss and their respective consequences, existing mitigators, an assessment of the mitigators, an assessment of residual risk, a judgement as to whether residual risk is within board approved tolerance levels and details of action plans to reduce residual risks below tolerable levels.

A risk profile was developed from the risk registers to prioritise risks requiring monitoring and action to reduce risks to below tolerable levels. The major consolidated entity risks identified are foreign exchange volatility, coal price volatility, government policy changes, contractor non-performance, customer and contractor credit and business interruption.

A Risk Management Policy (7.1) was developed to ensure that Macarthur's activities are undertaken within board approved risk tolerance levels and management guidelines and with sufficient independent oversight to protect the profitability, balance sheet and reputation of the consolidated entity. The policy works in conjunction with Macarthur's other policies, procedures and codes of conduct to manage risk:

- Continuous disclosure: To ensure that price sensitive information is released to the market through a structured process in compliance with the ASX continuous disclosure rules and that third party briefings are only conducted by authorised personnel
- Approval limits: To ensure that commitment of the consolidated entity's funds, the subsequent expenditure of those funds and asset disposals are approved by personnel with proper delegated authority
- Short term investments: To ensure that liquidity is maintained to meet operational requirements, that adequate credit controls are maintained to minimise loss of capital and that only authorised products are used
- Foreign exchange: To ensure exposure to currency risk caused by foreign exchange rate volatility is minimised and project finance mandatory hedging requirements are satisfied
- Environment: To ensure that the consolidated entity's operations are carried out at all times in compliance with all environmental legislative requirements, and with adherence to all relevant business codes of practice, and have due regard to acceptable environmental standards
- Employment: To ensure that staff carry out operations in compliance with legislative requirements, adherence to all relevant business codes of practice and having due regard to the required ethical standards
- Share trading: To ensure that all trading in the Company's securities by employees and directors accords with Common Law, the Corporations Act and the ASX Listing Rules
- Code of Conduct: To ensure legal and moral obligations to all stakeholders are met.

The next step in the risk management process is the establishment of an internal audit function, responsible to the committee for conducting an independent review of the risk management system.

All Macarthur personnel are asked to read and confirm their compliance (or to indicate any areas of non-compliance) with the consolidated entity's policies and procedures. The policies, procedures and codes of conduct are provided to new staff as part of the induction process.

Financial reporting

The Chief Executive Officer and Chief Financial Officer have declared in writing that the integrity of Macarthur's financial statements are founded on a sound system of risk management and internal compliance and controls which implements policies adopted by the board (7.2).

Financial reports are prepared each month and circulated to management and board. Financial performance is benchmarked against budgets to flag potential exposure to risk. The reports receive management and board attention and initiatives have been taken to mitigate factors which may adversely affect Macarthur's financial position.

The board has given consideration to the implementation of the International Financial Reporting Standards (IFRS). The standards will be implemented using the following process:

- An assessment and planning phase to produce a high level overview of the impacts of conversion on existing accounting and reporting policies and procedures, systems and processes, business structures and staff
- A design phase to formulate the changes required to existing accounting policies and procedures and systems and process to allow the transition to IFRS
- An implementation phase to identify changes to accounting and business procedures, processes and systems and operational training for staff.

Progress with the implementation of IFRS is reported to the Audit and Risk Management Committee.

ETHICAL STANDARDS

Macarthur's Corporate Code of Conduct (3.1), (10.1) and Directors' Code of Conduct (3.1) are designed to maintain confidence in the integrity of the consolidated entity and comply with all laws. The documents reflect Macarthur's recognition that its reputation is an essential element of the consolidated entity's success and that each employee must act in a way that preserves and enhances the consolidated entity's reputation. Officers should be loyal to Macarthur, should show the highest business integrity in their dealings with others, including preserving the confidentiality of other peoples' information, and should conduct Macarthur's business in accordance with the law and principles of good business practice.

The Corporate Code of Conduct sets out the standards that the consolidated entity will adhere to in conducting its business and encompasses:

- The commitment to shareholders
- Compliance with relevant laws
- Environmental protection
- Occupational health and safety
- Equal employment
- Confidentiality
- Conflicts of interest
- General conduct.

The Directors' Code of Conduct complements the Corporate Code of Conduct and sets out the standards required of each director while conducting their duties:

- Act honestly, in good faith and in the best interests of the consolidated entity without serving the interests of any particular group of stakeholders
- Exercise a degree of care and diligence that a reasonable person would exercise as a director in the same circumstances
- Not make improper use of information acquired through their directorship to gain a personal advantage or to cause detriment to the consolidated entity
- Ensure full and frank disclosure of any potential or actual conflict of interest between personal and Macarthur's interests
- Bring an enquiring, open and independent mind to meetings and be prepared to listen and debate on all issues in the best interests of the consolidated entity
- Treat fellow directors courteously while maintaining the ability and willingness to engage in vigorous debate
- Keep the business of all meetings confidential
- Not engage in activity which could harm, defame or bring discredit to the consolidated entity
- Cooperate fully with all corporate governance procedures set out by the board
- Devote sufficient time to the proper execution of their duties
- Comply with the spirit and the letter of the law
- Only trade in company securities with the knowledge of the Chairman and in accordance with the Share Trading Policy.

All issues of non-compliance are to be reported to the Company Secretary. No issues of non-compliance were reported in 2004.

- **Conflicts of interest**

In accordance with Macarthur's Directors' Code of Conduct, directors are required to keep the board informed of any interest that could potentially conflict with those of the consolidated entity. It is board practice that the respective director be excluded from board discussions on any topic where a conflict of interest has been declared or has the potential to exist. Decisions related to the matter creating the conflict are left to the board without the affected director being present.

Additionally, standing notices of material personal interests are tabled for noting in board minutes.

- **Trading in company securities by directors and employees**

The Share Trading Policy (3.2) outlines the times during which employees and directors are permitted to trade in the Company's securities and accords with Common Law, the Corporations Act and the ASX Listing Rules.

Allowable trading periods have been developed to provide guidance and to minimise the risk of trading shares when in possession of information that could have a material impact on the share price. Trading by employees and directors is permitted during the four week period commencing immediately after the announcement to the ASX of the half yearly and annual results; the conclusion of Macarthur's annual general meeting; and the issue of a prospectus unless the employee or director is in possession of price sensitive information.

To maintain a favourable company reputation, short term trading of Macarthur's shares for short term gain by employees is discouraged.

Details of share trading need to be provided to the Company Secretary, including details of trading through a family member, trust or company. No incidents of non-compliance were reported in 2004.

SHAREHOLDER COMMUNICATION

Macarthur's Shareholder Communication Policy was adopted on 13 May 2004. (6.1) The policy operates in conjunction with the Company's Continuous Disclosure Policy, the ASX Listing Rules and the Corporations Act to ensure that no preferential disclosure occurs and that shareholders are provided with timely, balanced communication written in plain language.

Macarthur communicates with shareholders via:

1. ASX announcements

All information with the potential to affect the price or value of Macarthur securities or to influence the decisions of investors in trading securities is released to the ASX and then placed onto the Macarthur website. Selective or differential disclosure is avoided.

All staff are aware of the Company's obligations to disclose and inform the Company Secretary of matters which may require disclosure to the ASX. The requirement to disclose is discussed by the Company Secretary and the CEO or Chairman. If disclosure is deemed necessary an ASX announcement is drafted, reviewed by the board and sent to the ASX.

The Company made 76 announcements to the ASX in 2004.

2. Website

Macarthur's website was redesigned during the year to enhance the continuous disclosure process and facilitate communication with shareholders. Shareholders have the option to subscribe to an email list to receive notification of each ASX announcement sent to the ASX.

The website is fast loading and easy to navigate. Content is updated regularly. The site also provides information on investments, the share registry, share price, corporate governance policies and marketing and also includes a photo library.

An officer has been appointed to deal with shareholder enquires via the telephone and internet/email.

3. Reports to shareholders

Macarthur provides shareholders with hard copies of all quarterly, half yearly and annual reports.

The Company undertakes to provide shareholders with factual and objective information presenting positive and negative information to enable shareholders to form an accurate assessment of the consolidated entity.

Information is presented in plain language. A glossary of mining and financial terminology is provided in the Company's annual reports and on the website.

4. General meetings

Macarthur encourages attendance and participation at its general meetings as a means of facilitating shareholder accountability and gaining shareholder feedback.

All notices of general meetings and agendas are disclosed to the ASX and then placed onto the Macarthur website.

The external auditor attends the Annual General Meeting and is available to answer questions regarding the audit (6.2).

Questions can be submitted via email or the website prior to the general meeting.

A copy of the Macarthur Constitution is available to shareholders on request.

CONTENTS – FINANCIAL SECTION

FOR THE YEAR ENDED 30 JUNE 2004

FINANCIAL OVERVIEW

Net profit

Net profit after tax was $11.7 million (2003: $10.9 million). The increase is principally attributable to:

- Sales increasing to $222.3 million (2003: $138.1 million) due to:
  - Ownership of the Coppabella Mine increasing by 23.3% to 73.3%
  - Moorvale commencing full production
    Improved United States dollar coal prices.
- Increase in expenditure attributable to:
  - An increased share of the Coppabella Mine production costs as a result of the additional 23.3% interest acquired from AMCI
  - Expansion of operations with the Moorvale Mine commencing full production
  - Higher demurrage costs due to congestion at the Dalrymple Bay Coal Terminal (DBCT) caused by production shortfalls at a number of coking coal mines, wet weather, production shortfalls and failure of a reclaimer at DBCT
  - An increase in administration expenses due to additional resources required to manage growth and pursue development opportunities
  - An increase in the rehabilitation provision due to an increase in disturbed areas at the Coppabella and Moorvale mines resulting from the expansion of operations
  - Higher depreciation and amortisation charges due to increased ownership of the Coppabella Mine and commencement of commercial production at the Moorvale Mine
  - Costs in connection with the Transport Infrastructure Corridor relocation
  - An increase in borrowing costs to fund the acquisition of the 23.3% interest in the Coppabella Mine.

Return on investment

Return on invested capital was 7.5% (2003: 6.7%). The increase is due to improved earnings despite the issue of 25.8 million shares in April 2004.

Return on invested capital is anticipated to improve in 2005 as a result of an expansion of saleable coal production at the Moorvale Mine.

Dividend

An annual dividend of 3.78 cents per share fully franked (2003: 4.2 cents) was declared. No interim dividend was paid during the year. The annual dividend paid per share is lower than last year due to the 25.8 million share increase.

The annual dividend accords with Macarthur's policy of paying approximately 50% of NPAT as dividends.

Cash flows

In 2004 there was a surplus of $18.9 million in cash flows from operating activities (2003: $2.9 million). The increase is attributable to:

- Commencement of production at the Moorvale Mine
- Increased ownership in the Coppabella Mine (up 23.3%)
- Higher revenues.

Net cash used in investing activities was $47.5 million (2003: $50.0 million). The major investing outflows incurred in 2004 related to business growth and included:

- Net cash relating to the acquisition of the 23.3% interest in the Coppabella Mine and unification of the Coppabella and Moorvale joint ventures
- Working capital increase by the Coppabella and Moorvale Joint Venture
- Moorvale Mine property, plant and equipment
- Coppabella Mine capital expenditure
- Exploration and evaluation expenditure.

Net cash provided by financing activities was $33.5 million (2003: $40.0 million). The major items were:

- Debt used for financing the acquisition cost of the 23.3% interest in the Coppabella Mine
- Debt used for funding Moorvale Mine development costs
- Proceeds from the rights issue.

Debt and gearing

Net debt to equity was 39.2% (2003: 41.0%). The decrease is attributable to the increase in shareholders' equity during the period. The following loan facilities operated during the year:

- A term loan for the Coppabella and Moorvale mines
- Working capital loans for the Coppabella and Moorvale operations
- A bridging loan for the acquisition of a 23.3% interest in the Coppabella Mine. The loan was used for five months and repaid in April 2004.

Interest cover (EBITDA/interest paid) was 4.6 times (2003: 8.3 times). The decrease is due to the increase in debt to fund the acquisition of the 23.3% interest in the Coppabella Mine and Moorvale Mine development costs.

Hedging

Foreign Exchange

Coal sales occur in United States dollars (USD). Consequently, increases in the value of the Australian dollar (AUD) relative to the USD expose Macarthur to lower AUD revenues. Forward exchange contracts and option based products are entered into to manage the foreign exchange risk.

In 2004, forward exchange contracts at an average AUD:USD exchange rate of US$0.6034 covered 87.6% of USD revenues. The average spot AUD:USD exchange rate (excluding any foreign exchange hedging benefit) applicable to sales for 2004 was US$0.7140.

The value of forward exchange contracts held at 30 June 2004 to hedge USD revenues was:

Period covered by FX Hedge Contracts	US dollar Value	FX rate AUD 1.00 =USD
July 04 to June 05	142,556,000	0.6631
July 05 to June 06	57,189,000	0.6414
Total	199,745,000	0.6569

Interest Rate

Macarthur established interest rate swaps and option based products to manage the cashflow risks associated with floating interest rates applicable to USD borrowings. At year end, 46% of Macarthur's cash advance term loan had the interest rate hedged by a combination of interest rate swaps and option based products.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2004

The directors present their report together with the financial report of Macarthur Coal Limited ABN 40 096 001 955 (referred to as "Macarthur" or "the Company") and of the consolidated entity, being Macarthur and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

Directors

The following people were directors of the Company during the whole of the financial year and up to the date of this report:

- Hon. Keith De Lacy
- Roger Marshall
- Don Nissen
- Ken Talbot.

Peter Forbes was appointed as a director at the Annual General Meeting on 14 November 2003 and has served as a director since his appointment.

Directors' qualifications, experience, special responsibilities and the period which directors have been appointed to Macarthur's board are set out on pages 22 and 23.

Directors' meetings

The board has two committees:

- Audit and Risk Management Committee (first convened in February 2003 as an Audit Committee, expanding its role to the Audit and Risk Management Committee in June 2003)
- Nomination and Remuneration Committee (first convened in July 2003).

The number of directors' meetings and board committee meetings and attendance during the financial year are:

	Board Meetings		Audit and Risk Management Committee Meetings		Nomination and Remuneration Committee Meetings	
	A	B	A	B	A	B
Hon. Keith De Lacy	14	15	7	7	4	4
Roger Marshall	15	15	3	3	4	4
Don Nissen	13	15	7	7	-	-
Peter Forbes	9	9	4	4	-	-
Ken Talbot	14	15	-	-	4	4

A = Number of meetings attended

B = Number of meetings held during the time the director held office during the year

Roger Marshall vacated his position on the Audit and Risk Management Committee following the appointment of Peter Forbes as a director on 14 November 2003.

Details of the responsibilities of the board, its two board committees and the board's coprorate governance practices are provided on pages 25 to 31 of the annual report.

Principal activities

The principal activities of the consolidated entity during the course of the year were coal exploration; project evaluation and development; and coal mining. All coal is predominately exported to Asia, Europe and the Americas.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Review and results of operations

The profit from ordinary activities after income tax of the consolidated entity for the financial year was $11,743,000 (2003: $10,900,000).

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2004

		Year ended June 2004 '000s	Year ended June 2003 '000s	Variance %
Sales				
Coppabella (excl. sale of purchased coal)	tonnes	3,750.5	4,198.0	-10.7
Moorvale (excl. sale of purchased coal)	tonnes	1,435.6	68.4	NA
Total (100%)	tonnes	5,186.1	4,266.4	21.6
Macarthur Coal's attributable sales	tonnes	3,801.4	2,151.7	76.7

Macarthur has achieved its objective of becoming a two mine operator with the establishment of the Moorvale Mine.

Macarthur's annual sales were 3.8 million tonnes, a 76.7% increase on last year. The increase was due to Moorvale production coming online and the increased ownership of the Coppabella Mine resulting from the purchase of a 23.3% interest from AMCI.

Coppabella sales were down on the previous year. The reduction was largely attributable to pit flooding and the Dalrymple Bay Coal Terminal reclaimer collapse in the March 2004 quarter. The impact of the two events was primarily limited to the March 2004 quarter with sales in the June 2004 quarter achieving the planned annualised rate of 4.2 million tonnes per annum.

Compound sales volume growth from July 2001 (date of listing on the Australian Stock Exchange) to June 2004 was 34.4% per annum against the prospectus target of 10% per annum. Despite the challenges faced during the 2004 financial year, Macarthur is well placed to realise larger profits in future years from increased sales.

Market status

Global metallurgical, PCI and thermal coal demand exceeds supply. Factors responsible for the imbalance include:

- China changing from a net exporter to a net importer of coking coal to meet increasing internal coal demand
- Growth in Asian crude steel production, particularly to meet demand in China
- Growth in Asian coal fired electricity generating capacity to meet growing industrial and urban power demand
- Additional supply being constrained by infrastructure limitations such as port and rail capacity.

Coal prices are continuing to strengthen in response to limited supply. Customers are responding to the shortages of coking coal by seeking to increase the use of PCI coals in the blast furnace.

Production

		Year ended June 2004 '000s	Year ended June 2003 '000s	Variance %
Coppabella Mine (100%)				
Overburden removed	bcm	40,760.7	48,495.9	-16.0
Run of mine coal production	tonnes	5,428.3	5,666.1	-4.2
Saleable coal production	tonnes	3,920.3	4,261.4	-8.0

Coppabella Mine performance was initially limited by:

- The majority of mining operations constrained to the Johnson Pit in the first half of the year pending the removal of the Transport Infrastructure Corridor (TIC). Strip ratios increased and yield was negatively impacted by poorer quality coal in the north of the pit
- A drill and blast failure which disrupted production
- Lack of pit inventories and stockpiles to allow optimal blending of run of mine (ROM) coals to maximise yield
- Heavy rainfall in January and February 2004 causing pit flooding.

Changes were initiated during the year to improve performance resulting in record quarterly run of mine coal production in the June 2004 quarter of 1,613,400 tonnes. The changes included:

- Completion of the TIC relocation allowing access to higher quality and shallower coal
- Increased production by the principal contractor, mining in the second half of the year at an annualised rate of 5.37 million tonnes per annum
- Successful introduction of a second contractor for a five year term in the East Pit, mining PCI coal and ultra low volatile coal.

The changes above resulted in improved stock levels which are expected to be maintained. The ROM stocks are sourced from different areas within the mine and provide increased scope for blending to improve processing yields.

		Year ended June 2004 '000s	Year ended June 2003 '000s	Variance %
Moorvale Mine (100%)				
Overburden removed	bcm	6,499.5	2,107.5	208.4
Run of mine coal production	tonnes	2,003.5	300.7	566.3
Saleable coal production	tonnes	1,514.5	68.4	NA

Moorvale has performed in line with expectations in its first year of production. Cumulative ROM coal production for the year surpassed the 2 million tonne milestone. The annual saleable coal production target of 1.5 million tonnes (upgraded from the 750,000 tonne target set at the beginning of the financial year) was also achieved.

Saleable production comprised 913,700 tonnes of PCI coal and 600,800 tonnes of thermal coal. Thermal coal production was disproportionately high relative to PCI coal production because initial mining occurred close to the surface where coal was oxidised. Mining has progressed into areas where coal quality has improved and the ratio of PCI coal to thermal coal is expected to increase.

The annual saleable coal production rate has been increased to 2 million tonnes in response to the strong demand for coal. A second product stockpile will be constructed to cater for the increased production and multiple coal products in 2005.

Exploration

Exploration with a view to repeating past successes in identifying coal deposits of significant economic value is a priority. Expenditure for the year was $2,660,000.

Details of Macarthur's exploration program can be found on pages 13 to 14 of the annual report.

Significant changes in the state of affairs

The consolidated entity's total assets increased by $61,624,000 to $375,758,000 (2003: $314,134,000) over the year.

The increase in total assets is principally due to the increase in the interest in Coppabella assets to 73.3%. An additional 23.3% was acquired from AMCI Australia Pty Ltd (AMCI) which sold its Coppabella interests in December 2003 with an effective date of 1 July 2003. On the same day, the consolidated entity sold a 3.7% interest in the Moorvale assets to another joint venture participant. The Coppabella Joint Venture and Moorvale Joint Venture were then combined to become the Coppabella and Moorvale Joint Venture, with an effective date of 1 July 2003. The purchase price, net of the sale of the 3.7% interest in Moorvale, was $42,149,000.

Contributed equity increased by $30,071,000 during the year. Components of the increase are:

	$'000
A renounceable rights issue of 25,781,413 shares on the basis of one new share for every five shares at $1.20 per share (net of the costs of the rights issue)	29,637
Options over 310,000 ordinary shares exercised at an exercise price of $1.15 per share	356
Conversion of 54,000 convertible notes to ordinary shares at a conversion ratio of one share for each note	78

The total number of ordinary shares on issue at 30 June 2004 was 154,724,477.

Interest bearing debt increased by $18,399,000.

Advances were obtained from the Moorvale Mine term loan facility to fund Moorvale Mine construction. The Coppabella and Moorvale term loan facilities were consolidated when joint venture unification occurred in December 2003.

During the year the consolidated entity purchased an additional 23.3% interest in the Coppabella Project. As part of the acquisition, the consolidated entity entered into an arrangement to progressively purchase the 23.3% interest in the exploration tenements each six months, over a 10 year period. In accordance with applicable Australian Accounting Standards the deferred liability has been reflected at its present value in the financial statements, discounted at 10% based on 6% interest plus risk adjusted margin.

The total amount of interest bearing debt at 30 June 2004 was:

	Payable within 12 months $'000	Payable after 12 months $'000	Total $'000
◆ Cash advance term loan (US$27,422,000)	12,882	26,866	39,748
◆ Convertible notes	-	29,871	29,871
◆ Deferred liability for acquisition of mining interest (EPCs)	1,934	10,633	12,567
	14,816	67,370	82,186

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

	Cents per Share	Total amount $'000	Franked/ Unfranked	Date of payment
Type				
◆ In respect of previous financial year				
❖ Final – ordinary	1.0	1,286	Franked	20 Oct 2003
◆ In respect of current financial year Paid or declared after end of year				
❖ Final – ordinary	3.78	5,871	Franked	30 Sept 2004

An interim dividend was not paid in the current year due to the small loss of $281,000 for the six months to 31 December 2003.

	Note	Total amount $'000
Dealt with in the financial report as:		
◆ Dividends	22	1,286
◆ Noted as a subsequent event	22	5,871

All the franked dividends paid or declared by the Company since the end of the previous financial year were franked at 30%.

Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration received by each director of Macarthur and each of the five named officers of Macarthur and the consolidated entity receiving the highest remuneration for the year ended 30 June 2004 are:

	Base remuneration (salary & fees) (1) $	Bonus $	Non cash benefits (2) $	Super contributions $	Other $	Total $
Non-executive Directors						
Hon. Keith De Lacy	59,633	-	8,093	5,367	4,267	77,360
Roger Marshall (3)	132,110	-	552	2,890	4,267	139,819
Don Nissen	41,284	-	552	3,716	4,267	49,819
Peter Forbes (4)	21,407	-	-	1,927	4,267	27,601
Executive Director						
Ken Talbot	197,593	-	9,616	78,445	4,267	289,921
Executive officers (excluding directors)						
Denis Wood	239,555	36,000	5,044	24,800	4,267	309,666
Nicole Hollows	178,580	22,750	64,100	13,208	4,267	282,905
Shane Stephan	197,062	22,750	27,566	16,998	4,267	268,643
Robert Adams	112,778	-	54,996	85,000	4,267	257,041
Bruce Denney (5)	194,658	-	2,909	16,990	4,267	218,824

(1) Base remuneration includes leave entitlements.
(2) Non cash benefits include salary sacrifice arrangements that cover motor vehicle benefits and expenses paid on behalf of directors and executives and fringe benefits tax.
(3) Base remuneration received by Roger Marshall includes consulting fees of $100,000.
(4) Peter Forbes was appointed as a director on 14 November 2003.
(5) Bruce Denney commenced on 27 October 2003 and ceased employment on 16 July 2004.

Board policy for determining the nature and remuneration of board members and senior executives and the relationship between the policy and Macarthur's performance is provided on page 28.

Options

No options were granted during or since the end of the financial year. At the date of this report unissued ordinary shares of Macarthur under option and the holders of the options are:

	Number of options	Exercise Date
Directors of the Company		
Hon. Keith De Lacy	300,000	4 July 2006
Roger Marshall	300,000	4 July 2006
Don Nissen	200,000	4 July 2006
	800,000	
Executives of the Company		
Robert Adams	200,000	4 July 2006
Nicole Hollows	120,000	4 July 2006
Shane Stephan	130,000	4 July 2006
	450,000	
Executives of an associated entity		
Brian Shepherd	120,000	4 July 2006
John Williams	120,000	4 July 2006
	240,000	

At the date of this report, unissued ordinary shares of Macarthur under option are:

Exercise date	Exercise price	Directors' Option Plan	Executive Option Plan
4 July 2006	$1.15	200,000	90,000
4 July 2006	$1.30	300,000	300,000
4 July 2006	$1.45	300,000	300,000
		800,000	690,000

Options do not entitle holders to participate in a rights issue of new shares. In the event of a bonus share issue, options will increase proportionately with the total number of shares. Options lapse if:

- The holder ceases to be a director or officer of the Company or the associated entity
- The options are not exercised by the last exercise due date, or
- The holder is dismissed for misconduct or for reasons involving fraud.

During or since the end of the year Macarthur issued 310,000 ordinary shares as a result of the exercise of options, at an exercise price of $1.15 per share. There are no amounts unpaid on the shares issued.

Directors' interests

The relevant interest of each director in the shares or options over shares issued by the companies within the consolidated entity and other related body corporates, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
Hon. Keith De Lacy	93,600	300,000
Roger Marshall	120,000	300,000
Don Nissen	120,000	200,000
Peter Forbes	18,000	-
Ken Talbot	67,440,778	-

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2004

Events subsequent to balance date

Except for the Government's plan to amend Tax Consolidation legislation, the introduction of International Financial Reporting Standards and the issue of 660,000 ordinary shares to directors and executives who exercised options over ordinary shares in August 2004, in the opinion of the directors of Macarthur, no transaction or event of a material or unusual nature is likely to significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Environmental regulation

Macarthur's mining and exploration activities are located within the Bowen Basin in central Queensland and are subject to environmental regulation under the Environmental Protection Act 1994 (Qld).

Macarthur aims to achieve a high standard of environmental care in conducting its business as a resource company. An Environmental and Government Liaison Officer oversees the consolidated entity's environmental obligations and a full time Environmental Coordinator is engaged to manage day to day environmental matters including monitoring environmental exposures and compliance with environmental regulations.

The environmental officers are responsible for:

- Setting, communicating and evaluating environmental objectives and targets
- Developing and implementing environmental management overview strategies and plans of operation for all mines
- Identifying requirements for corrective treatment and implementing the treatment
- Monitoring and reporting performance against legislated requirements for licences.

Management is provided with environmental updates for each mine site on a monthly basis. Any issues of non-compliance are required to be disclosed to the board. No issues of non-compliance occurred in 2004.

Likely developments

Macarthur will continue to pursue its policy of growth to become the leading independent Australian resource company by seeking new opportunities through well-targeted exploration expenditure and evaluation of existing coal projects. New opportunities include coke making. A coke plant prefeasibility study is in progress.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Indemnification of officers

Macarthur has agreed to indemnify each person who is or has been a director, officer or agent of the Company or of a wholly owned subsidiary of the Company against all liabilities to another person (other than Macarthur or a related body corporate) that may arise from their position as director, officer or agent, except where the liability arises out of conduct involving a lack of good faith. Macarthur is required to meet the full amount of any such liabilities, including costs and expenses.

No liability has arisen since the end of the previous financial year which Macarthur would, by operation of the above indemnities, be required to meet.

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.

Signed in accordance with a resolution of the directors.

Keith De Lacy
Chairman
24 August 2004

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

		Consolidated		The Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Revenue from coal sales	3	222,254	138,091	-	-
Cost of coal sold		(172,683)	(102,803)	-	-
Gross profit		49,571	35,288	-	-
Other revenue from ordinary activities	3	3,093	825	26,111	13,753
Distribution expenses		(14,487)	(6,510)	-	-
Administration expenses		(4,735)	(2,941)	(3,825)	(2,917)
Other expenses from ordinary activities		(6,758)	(4,870)	(17,548)	(23)
Earnings before interest and tax		26,684	21,792	4,738	10,813
Borrowing costs	4	(10,814)	(4,240)	(3,745)	(2,482)
Profit from ordinary activities before related income tax (expense)/benefit		**15,870**	**17,552**	**993**	**8,331**
Income tax (expense)/benefit relating to ordinary activities	6	(4,127)	(6,652)	(11)	154
Net profit	21	**11,743**	**10,900**	**982**	**8,485**
Basic earnings per share	7	$0.086	$0.083		
Diluted earnings per share	7	$0.086	$0.083		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 43 to 86.

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2004

	Note	Consolidated		The Company	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current assets					
Cash assets	8	11,775	6,825	11,686	6,728
Receivables	9	29,788	16,602	8,587	1,562
Inventories	10	11,312	4,239	-	-
Other financial assets	11	33,863	35,473	-	-
Current tax assets	6(b)	7,000	-	7,000	-
Other	12	37,028	25,102	642	813
Total current assets		**130,766**	**88,241**	**27,915**	**9,103**
Non-current assets					
Receivables	9	2,768	1,993	113,512	82,656
Other financial assets	11	8,906	19,147	57,871	75,393
Property, plant and equipment	13	186,094	134,122	78	70
Exploration, evaluation and development expenditure	14	37,126	62,654	-	-
Deferred tax assets	6(d)	6,601	2,474	6,601	2,474
Other	12	3,497	5,503	257	824
Total non-current assets		**244,992**	**225,893**	**178,319**	**161,417**
Total assets		**375,758**	**314,134**	**206,234**	**170,520**
Current liabilities					
Payables	15	28,409	22,510	548	729
Interest-bearing liabilities	16	14,816	6,372	-	-
Current tax liabilities	6(b)	-	1,248	-	1,384
Provisions	17	1,678	1,180	65	50
Other financial liabilities	18	9,404	1,002	-	-
Other	19	10,452	30,702	-	-
Total current liabilities		**64,759**	**63,014**	**613**	**2,163**
Non-current liabilities					
Payables	15	10,000	10,000	1,563	-
Interest-bearing liabilities	16	67,370	57,415	29,871	29,949
Deferred tax liabilities	6(c)	17,885	11,886	17,885	11,886
Provisions	17	8,397	4,340	48	35
Other financial liabilities	18	18,501	6,184	-	-
Other	19	9,395	22,372	-	-
Total non-current liabilities		**131,548**	**112,197**	**49,367**	**41,870**
Total liabilities		**196,307**	**175,211**	**49,980**	**44,033**
Net assets		**179,451**	**138,923**	**156,254**	**126,487**
Equity					
Contributed equity	20	155,053	124,982	155,053	124,982
Retained profits	21	24,398	13,941	1,201	1,505
Total equity		**179,451**	**138,923**	**156,254**	**126,487**

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 43 to 86.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Cash flows from operating activities					
Cash receipts in the course of operations		218,857	134,930	1,725	1,089
Cash payments in the course of operations		(190,445)	(127,662)	(4,092)	(4,442)
Dividends received		-	-	17,586	8,227
Interest received		1,038	518	6,842	4,437
Borrowing costs paid		(590)	-	(30)	-
Income taxes paid	6(b)	(9,913)	(4,872)	-	-
Net cash provided by/(used in) operating activities	25(b)	**18,947**	**2,914**	**22,031**	**9,311**
Cash flows from investing activities					
Payments for property, plant and equipment		(15,008)	(37,271)	(35)	(59)
Proceeds from property, plant and equipment		12	-	11	-
Payments for acquisition of joint venture interests and related assets (net of cash)		(19,638)	(11,267)	-	-
Proceeds from disposal of joint venture interests and related assets (net of cash)		1,404	-	-	-
Payments for exploration, evaluation and development expenditure		(3,993)	(10,192)	-	-
Payments for other financial assets		(10,233)	-	-	-
Proceeds from other financial assets		-	8,767	-	-
Advances to controlled entities		-	-	(42,609)	(49,116)
Repayments from controlled entities		-	-	-	14,307
Net cash used in investing activities		**(47,456)**	**(49,963)**	**(42,633)**	**(34,868)**
Cash flows from financing activities					
Proceeds from issue of shares		29,993	-	29,993	-
Proceeds from borrowings:					
◆ Convertible notes		-	30,000	-	30,000
◆ Other		54,422	34,137	9,600	16,800
Repayment of borrowings		(52,002)	(19,614)	(9,600)	(16,800)
Payment of borrowing costs:					
◆ Convertible notes		(3,002)	(1,934)	(3,002)	(1,934)
◆ Other		(2,760)	(1,597)	(145)	-
Proceeds from other financial liabilities		10,355	7,186	-	-
Payments for other financial liabilities		(2,261)	-	-	-
Dividends paid		(1,286)	(8,227)	(1,286)	(8,227)
Net cash provided by financing activities		**33,459**	**39,951**	**25,560**	**19,839**
Net increase/(decrease) in cash held		4,950	(7,098)	4,958	(5,718)
Cash at the beginning of the financial year		6,825	13,923	6,728	12,446
Cash at the end of the financial year	25(a)	**11,775**	**6,825**	**11,686**	**6,728**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 43 to 86.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

1. Statement of significant accounting policies

The significant policies which have been adopted in the preparation of the financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and 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.

Accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Associates

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

Joint ventures

A joint venture is either an entity or operation that is jointly controlled by the consolidated entity.

The consolidated entity's interests in unincorporated joint venture operations are brought to account by including its proportionate share of joint ventures' assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances and effects of transactions with or between controlled entities are eliminated in full on consolidation.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Sale of goods

Revenue from the sale of coal is recognised (net of penalties, returns, discounts, allowances and hedging gains/losses) when control of the goods passes to the customer.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Dividends

Dividend revenue is recognised net of any franking credits.

Revenue from dividends and distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from other investments is recognised when dividends are received.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1. Statement of significant accounting policies (continued)

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions (see Note 1(f))
- relating to acquisition of qualifying assets (see Note 1(g)).

Natural hedge

A specific natural hedge exists between the United States dollar denominated cash advance term loan (see Note 16) and United States dollar denominated coal sales revenue. The natural hedge position was established when the cash advance term loan was restructured and the Australian dollar denominated debt was redrawn as a United States dollar denominated debt and upon further drawings of United States dollar denominated debt. The United States dollar denominated debt has been brought to account at the 30 June 2004 exchange rate with the exchange gain or loss arising from the difference between the hedge rate and the year end rate being carried forward as a deferred unrealised foreign exchange gain or loss (Note 19).

The repayment schedule of the cash advance term loan has been used to identify the future coal sales to which the natural hedge relates. When sales occur, they will be translated at the hedge rate (being the rate at the time of loan drawdown) and any gains or losses will be offset against the carried forward deferred foreign exchange gains or losses arising on the revaluation of the United States dollar denominated debt.

(f) Derivatives

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses forward foreign exchange contracts, interest rate options and interest rate swaps to hedge foreign exchange and interest rate risk. Derivative financial instruments are not held for speculative purposes.

Hedges

Anticipated transactions

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or anticipated interest transaction only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. The net receivables or payables are revalued using the foreign currency current at reporting date.

The net amounts receivable or payable under open swaps and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest rates current at reporting date.

Option premiums are recorded when paid and included in the measurement of the transaction when it occurs.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for that period.

1. Statement of significant accounting policies (continued)

(f) Derivatives (continued)

Hedges (continued)

Anticipated transactions (continued)

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for that period.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the statement of financial performance.

Other hedges

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the ruling spot rate on that date and any gains or losses are brought to account in the statement of financial performance.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(g) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised as “deferred expenditure” and amortised over the life of the borrowings or over five years whichever is lesser.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs associated with qualifying assets are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is the amount incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

(h) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

Capital gains tax, if applicable, is provided for in establishing the period’s income tax expense when an asset is sold.

Tax consolidation legislation

The Company is the head entity in the tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries, from the implementation date of 1 July 2002 and has applied UIG 52 “Income Tax Accounting under the Tax Consolidation System”.

The financial effect of this change was brought to account in the financial statements for the Company and consolidated entity for the year ended 30 June 2003 as set out in Note 6 in accordance with UIG 52 “Income Tax Accounting under the Tax Consolidation System”.

All members of the tax consolidated group have entered into a Tax Sharing Agreement (TSA).

1. Statement of significant accounting policies (continued)

(h) Taxation (continued)

The main provisions of the TSA result in the following:

- All of the group members' deferred tax balances have been recognised by the Company as the head entity;
- Allocates the group tax liability on the basis of Notional Taxable Income to all members whose Notional Taxable Income is more than zero, being the Contribution amounts;
- Any deferred tax balances arising on initial application and each year that are assumed/received by the head entity are paid for between each Contributing Member and the head entity;
- Income tax expense based on the allocated Notional Tax allocations is recognised by Contributing Members;
- Intercompany tax related payables are only paid by the Contributing Member when the head entity has paid the liability to the ATO; and
- Any tax losses incurred are paid for by the transferee company and received by each loss company under the TSA.

(i) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(j) Acquisitions of assets

Initial costs

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset. Borrowing costs are capitalised to qualifying assets as set out in Note 1(g).

Expenditure, including that on internally generated assets, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, expensed as incurred.

(k) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1. Statement of significant accounting policies (continued)

(l) Receivables

The collectability of debts is assessed at reporting date and where appropriate specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors to be settled within 90 days are carried at amounts due.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is allocated on a monthly first in and first out basis and includes direct material, overburden removal, coal mining, coal processing, labour, related transportation costs to the point of sale and other fixed and variable overhead costs directly related to mining activities. The site overheads and rehabilitation cost component of inventory is allocated using standard costing. Depreciation and amortisation are allocated to inventories on a units of production basis.

Net realisable value is determined on each inventory lines' normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(n) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer Note 1(q).

Associates

In the consolidated entity's financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount. Refer Note 29.

Joint ventures

In the consolidated entity's financial statements, investments in joint venture operations are accounted for as set out in Note 1(b).

(o) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(p) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

When production commences, carried forward exploration, evaluation and development costs are transferred to Property, Plant and Equipment — Mining Property. Any exploration conducted within an operating Mining Lease area is expensed as incurred.

(q) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (refer Note 1(p)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value, except where specifically stated.

Cost versus fair value

Except where specifically stated, non-current assets are recorded at the lower of cost and recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

1. Statement of significant accounting policies (continued)

(r) Depreciation and amortisation

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful lives

All assets, excluding freehold land, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of carried forward exploration, evaluation and development expenditure in the production phase which is amortised on a units of production basis over the life of the economically recoverable reserves being 78,504,300 (2003: 46,200,000) tonnes for the Coppabella Mine and 20,652,343 (2003: Nil) for the Moorvale Mine or, where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the exploration or development phases until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only (refer Note 4(c)). Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

	2004	2003
Property, plant and equipment		
Mining property	8 - 16 years	16 years
Buildings and infrastructure	6.5% - 40%	6.5% - 40%
Plant and equipment	13% - 40%	13% - 40%

(s) Overburden in advance

Expenditure incurred in the removal of overburden from coal deposits is deferred, and expensed in operating expenditure as the coal is extracted. The balance of the amount deferred is reviewed at each reporting date to determine the amount (if any) which is no longer recoverable out of future revenue. Any amounts so determined are written off.

(t) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(u) Interest bearing liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in “Other creditors and accruals”.

(v) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees’ services provided up to the reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at the reporting date including related on-costs.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees’ services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Directors’ Option Plan, Executive Option Plan and Employee Share Plan

Information relating to the plans is set out in Note 33.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Superannuation plan

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

1. Statement of significant accounting policies (continued)

(w) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except for certain mine site rehabilitation as noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of recovery. In the statement of financial position, the provision is recognised net of recovery receivable only when the entity:

- has a legally recognised right to set-off the recovery receivable and the provision; and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless the extent to which they will be paid in cash.

Mine site rehabilitation

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated, as if the mine was shutdown at reporting date. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs per hectare to rehabilitate such areas. The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing current technology while having regard to current legislative requirements. The costs per hectare for rehabilitation of long term building and infrastructure areas are discounted to their present value. In addition, the discounted costs relating to the building and infrastructure areas are capitalised as an asset and amortised over the economic life of the mine on a units of production basis. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation.

Assumptions have been made as to the remaining life of existing sites based on studies conducted by independent technical advisors.

(x) Financial instruments issued

Other financial instruments

Where financial instruments, such as convertible notes issued by the Company, are redeemable at the option of the holder but the Company has the right to either convert them to ordinary shares or to pay the cash equivalent, the proceeds received are classified as a liability and related distributions as interest expense.

2. Changes in accounting policies

There have been no changes in accounting policies since the end of the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
3. Revenue from ordinary activities				
Revenue from operating activities				
Sale of coal	222,254	138,091	-	-
Other revenues				
From operating activities:				
◆ Management fee – related parties	122	306	1,672	1,087
◆ Dividends – related parties	-	-	17,586	8,227
◆ Net foreign exchange gains	517	-	-	-
◆ Interest:				
❖ Related parties	-	-	6,400	4,189
❖ Other parties	1,038	517	442	248
◆ Sundry – other parties	-	2	-	2
From outside operating activities:				
◆ Gross proceeds from sale of non-current assets	1,416	-	11	-
Total other revenues	3,093	825	26,111	13,753
Total revenue from ordinary activities	225,347	138,916	26,111	13,753

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
4. Profit from ordinary activities before income tax expense				
(a) Individually significant expenses included in profit from ordinary activities before income tax expense				
◆ Capitalised borrowing costs written off	1,912	-	-	-
◆ Write off of overburden in advance	2,845	-	-	-
◆ Write down in value of investments in controlled entities to recoverable amount	-	-	17,521	-
(b) Profit from ordinary activities before income tax expense/benefit has been arrived at after charging/(crediting) the following items (including items in (a) above):				
◆ Borrowing costs relating to convertible notes	3,002	1,976	3,002	1,976
◆ Borrowing costs relating to bank loans and other	7,812	2,324	743	506
Less Capitalised borrowing costs	-	(60)	-	-
	10,814	4,240	3,745	2,482
◆ Depreciation:				
❖ Buildings and infrastructure	5,573	2,241	-	-
❖ Plant and equipment	313	162	21	23
	5,886	2,403	21	23
◆ Amortisation of mining property	5,726	4,998	-	-
◆ Net foreign exchange losses	-	2,350	-	-
◆ Net expense from movements in provision for:				
❖ Rehabilitation	1,709	1,313	-	-
❖ Employee entitlements	21	57	21	52
◆ Government royalties on mineral sales or production	11,587	7,706	-	-
◆ Operating lease rental expenses	423	368	145	124
◆ Exploration expenditure	258	-	-	-
◆ Exploration expenditure written off	-	852	-	-
◆ Net (gain)/loss on disposal of non-current assets	2,002	-	(5)	-
◆ Write down in value of investments in controlled entities to recoverable amount	-	-	17,521	-

(c) 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 $1,075,000 for the year ended 30 June 2004.

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 $248,000 for the year ended 30 June 2004.

4. Profit from ordinary activities before income tax expense (continued)

(c) Revision of accounting estimate (continued)

Deferred tax balances

As a consequence of the enactment of the Tax Consolidation legislation and the Company, as the head entity in a tax-consolidated group, implementing tax consolidation from 1 July 2002, the head entity has applied UIG 52 "Income Tax Accounting under the Tax Consolidation System".

The head entity finalised the calculation of reset tax values under tax consolidation in the second half of this financial year. The subsidiary-related deferred tax balances recognised in the Company and consolidated entity have been determined based on the tax-consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary-related deferred tax balances recognised in the Company and consolidated entity were determined based on the previous timing differences at the level of the tax-consolidated group on 1 July 2002. The consolidated entity has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

As a result of the resetting of the tax values of assets under tax consolidation, a one-off income tax benefit of $1,788,000 was recognised during the current financial year (refer Note 6(a)).

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
5. Auditors' remuneration				
Audit services:				
◆ Auditors of the Company – KPMG				
❖ Audit and review of the financial reports [A]				
- Current year	120,510	107,000	120,510	107,000
- Prior year	4,500	21,000	4,500	21,000
	125,010	128,000	125,010	128,000
Other services:				
◆ Auditors of the Company – KPMG				
❖ Other assurance services [A] [B]	55,800	9,200	55,800	9,200
❖ Taxation services [A] [B]	56,827	61,241	56,827	61,241
❖ Joint venture operations [D]				
- Audit	66,446	37,125	-	-
- Other assurance services	19,021	33,613	-	-
◆ KPMG related practice				
❖ Due diligence [C]	26,578	45,000	26,578	45,000
	224,672	186,179	139,205	115,441

(A) All auditors' remuneration is borne by the Company for the consolidated entity.

(B) Other assurance services include advice in relation to accounting, corporate governance, continuous disclosure and risk management issues.

(C) Due diligence services relate to the rights issue in the current year and the convertible note issue in the prior year.

(D) Represents the consolidated entity's share of remuneration paid for audit and other assurance services incurred by joint ventures.

6. Taxation

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
(a) Income tax expense/(benefit)				
Prima facie income tax expense calculated at 30% (2003: 30%) on the profit from ordinary activities	4,761	5,266	298	2,499
Increase in income tax expense due to:				
◆ Non allowable amortisation of mining property	1,437	1,502	-	-
◆ Other	1,092	600	19	119
◆ Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax consolidated group	-	-	4,117	6,612
◆ Write down of investments in controlled entities	-	-	5,256	-
Decrease in income tax expense due to:				
◆ Recovery of income tax expense under Tax Sharing Agreement	-	-	(4,117)	(6,692)
◆ Deduction for float costs	(295)	(217)	(295)	(217)
◆ Non assessable dividends	-	-	(5,276)	(2,468)
◆ Under/(over) provision prior year	(116)	(26)	9	(7)
◆ Other	(964)	(473)	-	-
Income tax expense/(revenue) attributable to profit from ordinary activities	5,915	6,652	11	(154)
Deferred tax expense/(benefit) arising from the resetting of the tax values of assets as a result of the tax consolidation legislation implemented on 1 July 2002	(1,788)	-	-	-
Total income tax expense/(benefit) attributable to profit from ordinary activities	4,127	6,652	11	(154)
Income tax expense/(revenue) attributable to profit from ordinary activities is made up of:				
◆ Current income tax provision	4,017	849	(4,081)	(156)
◆ Deferred income tax provision	3,066	6,319	13	2
◆ Future income tax benefit	(1,052)	(490)	(47)	7
◆ Tax related payable/(recoverable) to/(from) wholly-owned subsidiaries	-	-	4,117	-
◆ Under/(over) provision prior year	(116)	(26)	9	(7)
◆ Deferred tax expense/(benefit) arising from the resetting of the tax values of assets as a result of the tax consolidation legislation implemented on 1 July 2002	(1,788)	-	-	-
	4,127	6,652	11	(154)
(b) Current tax liabilities/(assets)				
Provision for current income tax payable/(receivable)				
Movements during the year:				
◆ Balance at beginning of year	1,248	5,065	1,384	329
◆ Under/(over) provision in prior period	(1,202)	(193)	(1,384)	(329)
◆ Income tax paid	(9,913)	(4,872)	-	-
◆ Current year's income tax provision	2,867	1,248	-	-
◆ Income tax expense related to wholly-owned subsidiaries in a tax consolidated group	-	-	(7,000)	1,384
	(7,000)	1,248	(7,000)	1,384

6. Taxation (continued)

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
(c) Deferred tax liabilities				
Provision for deferred income tax				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:				
◆ Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	1,256	926	1	2
◆ Expenditure currently deductible for tax but deferred and amortised for accounting purposes	14,576	10,792	-	-
◆ Sundry items	2,053	168	14	-
◆ Provision for deferred income tax relating to timing differences attributable to wholly-owned subsidiaries under tax consolidation	-	-	17,870	11,884
	17,885	11,886	17,885	11,886
(d) Deferred tax assets				
Future income tax benefit				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% on the following items:				
◆ Provisions and accrued employee entitlements not currently deductible	3,022	1,656	34	25
◆ Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	31	-	31	-
◆ Sundry items	384	224	8	-
◆ Tax losses carried forward	3,164	594	-	-
◆ Future income tax benefit relating to timing differences attributable to wholly-owned subsidiaries under tax consolidations	-	-	6,528	2,449
	6,601	2,474	6,601	2,474
Future income tax benefit not taken to account				
The potential future income tax benefit in a controlled entity, which is a company, arising from timing differences has not been recognised as an asset because the recovery of the timing difference is not assured beyond any reasonable doubt:				
◆ Capital losses	32	975	-	-
	32	975	-	-

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the relevant company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

7. Earnings per share

	Consolidated 2004 $'000	Consolidated 2003 $'000
Earnings used as the numerator in calculating earnings per share (basic and diluted earnings per share)		
Net profit	11,743	10,900

	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	136,907,425	128,544,160
Number for diluted earnings per share		
Ordinary shares	136,907,425	128,544,160
Effect of directors' and executives share options on issue	90,391	-
	136,997,816	128,544,160

During the financial year 54,000 convertible notes were converted to ordinary shares. The basic EPS calculation includes these notes converted to shares (2003: 35,000).

On 10 March 2004, 310,000 options were converted to ordinary shares. The diluted EPS calculation includes that portion of these options assumed to be issued for nil consideration, weighted with references to the date of conversion. The weighted average number included is 21,456 (2003: Nil).

The following convertible notes and options issued have not been included in the calculation of diluted EPS as they are not dilutive:

	2004 Number	2003 Number
◆ Directors' Option Plan	600,000	900,000
◆ Executive Option Plan	600,000	900,000
◆ Convertible Notes	20,600,660	20,654,660

8. Cash assets

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Cash at bank and in hand	185	619	98	523
Bank cash deposit account at call, paying interest at 5.2% (2003: 4.7%) at 30 June 2004	4,632	6,206	4,630	6,205
Bank bills maturing in 60 days paying interest at 5.5% (2003: Nil%) at 30 June 2004	6,958	-	6,958	-
	11,775	6,825	11,686	6,728

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
9. Receivables				
Current				
Trade debtors	18,416	9,412	-	-
Other debtors	3,239	4,005	-	23
Tax related receivables	-	-	8,273	1,511
Amounts receivable from associated and related entities – unsecured	8,133	3,185	314	28
	29,788	16,602	8,587	1,562
Non-current				
Security deposits	95	51	-	-
Loans to employees – Employee Share Plan	26	56	26	56
Tax related receivables	-	-	-	9,141
Amounts receivable from associated and related entities – unsecured	2,647	1,886	-	-
Amounts receivable from controlled entities – unsecured	-	-	113,486	73,459
	2,768	1,993	113,512	82,656

Other debtors amounts mainly comprise GST refund due from the Australian Taxation Office and other amounts receivable in the ordinary course of business for usual operating activities. Collateral is not obtained.

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
10. Inventories				
Current				
Coal stocks, at cost	11,312	4,239	-	-

Refer to Note 16 for details of security over inventories.

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
11. Other financial assets				
Current				
Bank accounts – not at call	18,417	6,453	-	-
Foreign currency contracts	15,446	29,020	-	-
	33,863	35,473	-	-
Non-current				
Investments in controlled entities – at cost	-	-	57,871	75,393
Foreign currency contracts	8,906	19,147	-	-
	8,906	19,147	57,871	75,393

Refer to Note 16 for details of security over investments in controlled entities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
12. Other assets				
Current				
Prepayments	494	928	73	243
Deferred expenditure	726	1,145	569	570
Overburden in advance	35,808	23,029	-	-
	37,028	25,102	642	813
Non-current				
Deferred expenditure	1,800	3,439	1,171	1,139
Less accumulated amortisation	(1,296)	(619)	(914)	(315)
	504	2,820	257	824
Overburden in advance	2,993	2,683	-	-
	3,497	5,503	257	824
13. Property, plant and equipment				
Mining property (including mining rights and coal reserves)				
◆ At cost	139,649	93,936	-	-
Less accumulated depreciation	(16,389)	(10,228)	-	-
	123,260	83,708	-	-
Freehold land				
◆ At cost	4,923	5,065	-	-
Buildings and infrastructure				
◆ At cost	64,688	32,018	-	-
Less accumulated depreciation	(8,111)	(3,615)	-	-
	56,577	28,403	-	-
Plant and equipment				
◆ At cost	1,597	1,128	133	108
Less accumulated depreciation	(491)	(279)	(55)	(38)
	1,106	849	78	70
◆ Capital works in progress				
At cost	228	16,097	-	-
	186,094	134,122	78	70

Refer to Note 16 for details of security over property, plant and equipment.

13. Property, plant and equipment (continued)

Reconciliations

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
◆ Mining property				
Carrying amount at beginning of year	83,708	69,666	-	-
❖ Additions, including acquisitions through acquisition of interest in joint venture	17,326	19,938	-	-
❖ Transfer from development	29,468	-	-	-
❖ Exploration expenditure written off	-	(852)	-	-
❖ Disposals	(1,081)	-	-	-
❖ Amortisation	(6,161)	(5,044)	-	-
Carrying amount at end of year	123,260	83,708	-	-
◆ Freehold land				
Carrying amount at beginning of year	5,065	129	-	-
❖ Additions	55	4,936	-	-
❖ Disposals	(197)	-	-	-
Carrying amount at end of year	4,923	5,065	-	-
◆ Buildings and infrastructure				
Carrying amount at beginning of year	28,403	20,136	-	-
❖ Additions, including acquisitions through acquisition of interest in joint venture	18,840	7,731	-	-
❖ Transfer from capital works in progress	15,177	2,792	-	-
❖ Disposals	(1,347)	-	-	-
❖ Depreciation	(4,496)	(2,256)	-	-
Carrying amount at end of year	56,577	28,403	-	-
◆ Plant and equipment				
Carrying amount at beginning of year	849	609	70	34
❖ Additions, including acquisitions through acquisition of interest in joint venture	484	404	35	59
❖ Transfer from capital works in progress	33	-	-	
❖ Disposals	(48)	-	(6)	-
❖ Depreciation	(212)	(164)	(21)	(23)
Carrying amount at end of year	1,106	849	78	70
◆ Capital works in progress				
Carrying amount at beginning of year	16,097	882	-	-
❖ Additions, including acquisitions through acquisition of interest in joint venture	86	18,007	-	-
❖ Disposals	(745)	-	-	-
❖ Transfers to property, plant and equipment	(15,210)	(2,792)	-	-
Carrying amount at end of year	228	16,097	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
14. Exploration, evaluation and development expenditure				
Costs carried forward in respect of areas of interest in:				
◆ Exploration and/or evaluation phase – at cost	37,126	33,186	-	-
◆ Development phase – at cost	-	29,468	-	-
	37,126	62,654	-	-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
15. Payables				
Current				
Trade creditors	1,554	12,420	240	164
Other creditors and accruals	26,855	9,987	308	565
Amounts payable to associated and related entities – unsecured	-	103	-	-
	28,409	22,510	548	729
Non-current				
Other amounts payable	10,000	10,000	-	-
Amounts payable to controlled entities – unsecured	-	-	1,563	-
	10,000	10,000	1,563	-
16. Interest bearing liabilities				
Current				
Bank loans – secured	12,882	6,372	-	-
Deferred liability for acquisition of mining interest – unsecured	1,934	-	-	-
	14,816	6,372	-	-
Non-current				
Bank loans – secured	26,866	27,466	-	-
Redeemable convertible notes	29,871	29,949	29,871	29,949
Deferred liability for acquisition of mining interest – unsecured	10,633	-	-	-
	67,370	57,415	29,871	29,949

Redeemable convertible notes

In December 2002 the Company issued 20,689,660 convertible notes at an issue price of $1.45 each with interest at 10% per annum payable half-yearly. The notes are convertible, at the option of the holder, on any interest payment date up to 11 December 2005 to ordinary shares on the basis of one share per note. The Company has the option, on receiving the conversion request from the holder, to either issue ordinary shares or to pay the cash equivalent. Any notes not converted by the maturity date must be redeemed by the Company at the issue price on the maturity date. During the year 54,000 (2003: 35,000) notes were converted at $1.45 (refer Note 20).

Deferred liability for acquisition of mining interest – unsecured

During the year the consolidated entity purchased an additional 23.3% interest in the Coppabella Project. As part of the acquisition, the consolidated entity entered into an arrangement to progressively purchase the 23.3% interest in the exploration tenements each six months, over a 10 year period. In accordance with applicable Australian Accounting Standards the deferred liability has been reflected at its present value in the financial statements, discounted at 10% based on 6% interest plus risk adjusted margin.

16. Interest bearing liabilities (continued)

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Financing arrangements				
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
◆ Bank loans				
❖ cash advance term loan (US$27,422,000)	39,748	47,376	-	-
❖ revolving cash advance working capital loan	17,226	14,450	-	-
❖ revolving amortising cash advance bridge loan	9,600	-	9,600	-
◆ Bank guarantee	35,855	27,413	-	-
	102,429	89,239	9,600	-
Total facilities utilised at reporting date:				
◆ Bank loans				
❖ cash advance term loan (US$27,422,000)	39,748	20,927	-	-
❖ revolving cash advance working capital loan	-	12,910	-	-
❖ revolving amortising cash advance bridge loan	-	-	-	-
◆ Bank guarantee	35,281	27,161	-	-
	75,029	60,998	-	-
Facilities not utilised at reporting date:				
◆ Bank loans				
❖ cash advance term loan (US$Nil)	-	26,449	-	-
❖ revolving cash advance working capital loan	17,226	1,540	-	-
❖ revolving amortising cash advance bridge loan	9,600	-	9,600	-
◆ Bank guarantee	574	252	-	-
	27,400	28,241	9,600	-

Bank loans

Project finance facility

A non-recourse project finance facility applicable to the Coppabella and Moorvale mines is in place with the debt being held by the controlled entities. Bank loans provided as part of the project finance facility are:

1. Cash advance term loan

   The loan is denominated in United States dollars and is to be amortised on a diminishing basis over the period to 15 November 2008. An amount of A$12,882,000 (US$8,887,000) (2003: A$6,372,000; US$4,248,000) is included in current liabilities, being the amount payable within one year. The balance of A$26,866,000 (US$18,535,000) (2003: A$14,556,000; US$9,704,000) is included in non-current liabilities.

   The interest rate applicable to the cash advance term loan comprises LIBOR plus a margin of 1.65% per annum. The effective interest rate is 3.25% (2003: 2.76%) per annum at 30 June 2004.

2. Revolving cash advance working capital loan

   The revolving cash advance working capital loans are denominated in Australian dollars. The amount drawn at 30 June 2004 is A$Nil (2003: A$12,910,000). The loan facility is available until 15 November 2008.

   The interest rate comprises a base rate based on BBSY plus a margin of 1.65% per annum. The effective interest rate is 7.14% (2003: 6.50%) per annum at 30 June 2004. Additionally, a commitment fee of 0.70% per annum is payable on the unused portion of the revolving cash advance working capital loan facility.

3. Bank guarantee facility

   The bank guarantee facility is denominated in Australian and United States dollars and is available until 15 November 2008. Bank guarantee fees are payable at 0.775% per annum and a fee of 0.35% per annum applies to the unused portion of the bank guarantee facility.

16. Interest bearing liabilities (continued)

Bank loans (continued)

Project finance facility (continued)

Security

The Project Finance Facility is secured by charges over the consolidated entity's interest in the Coppabella and Moorvale Joint Venture including all of the assets and undertakings of the controlled entity, Coppabella Coal Pty Ltd, and the Company's shares in Coppabella Coal Pty Ltd and intercompany loans to the controlled entity.

Corporate facility

A corporate finance facility is in place with the debt being held by the Company. The details of the loan are as follows:

Revolving amortising cash advance bridge loan

A revolving amortising cash advance bridge loan of $9,600,000 denominated in Australian dollars was put in place during the year. There are no amounts drawn at 30 June 2004 and the available facility reduces to $8,000,000 on 1 July 2004. The loan facility is available until 30 September 2005.

The interest rate comprises a base rate based on BBSY plus a margin of 2.25% per annum. The effective interest rate is 7.74% per annum at 30 June 2004. Additionally, a commitment fee of 1.00% per annum is payable on the unused portion of the revolving amortising cash advance bridge loan facility.

Security

The Corporate Facility is secured by charges over all of the consolidated entity's assets ranking after those assets secured under the Project Finance Facility.

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Assets pledged under security arrangements				
The carrying amount of the pledged non-current assets are as follows:				
Mining property	123,260	81,087	-	-
Land	4,923	4,108	-	-
Buildings and infrastructure	56,577	28,403	-	-
Plant and equipment	1,106	772	78	-
Capital works in progress	228	16,097	-	-
Exploration, evaluation and development expenditure	37,126	29,468	-	-
Receivables	2,768	7,797	26	-
Deferred tax assets	6,601	-	6,601	-
Other financial assets	8,906	19,147	-	-
Other	2,993	4,678	-	-
Shares in controlled entities	-	-	57,871	65,889
Amounts receivable from controlled entities	-	-	113,486	59,133
	244,488	191,557	178,062	125,022

17. Provisions

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Current				
Employee benefits	65	57	65	50
Rehabilitation	1,613	1,123	-	-
	1,678	1,180	65	50
Non-current				
Employee benefits	48	35	48	35
Rehabilitation	8,349	4,305	-	-
	8,397	4,340	48	35

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
18. Other financial liabilities				
Current				
Mining exploration and evaluation costs (refer Note 26(d))	1,360	-	-	-
Amounts payable for future user charges (refer Note 26(e))	1,570	1,002	-	-
Foreign currency contracts	6,474	-	-	-
	9,404	1,002	-	-
Non-current				
Mining exploration and evaluation costs (refer Note 26(d))	1,545	-	-	-
Amounts payable for future user charges (refer Note 26(e))	14,346	6,184	-	-
Foreign currency contracts	2,610	-	-	-
	18,501	6,184	-	-
19. Other liabilities				
Current				
Deferred unrealised gains on foreign currency contracts	8,972	29,020	-	-
Deferred unrealised gains on US dollar bank loans	1,480	573	-	-
Deferred realised gains on foreign currency contracts	-	1,109	-	-
	10,452	30,702	-	-
Non-current				
Deferred unrealised gains on foreign currency contracts	6,296	19,147	-	-
Deferred unrealised gains on US dollar bank loans	3,099	3,225	-	-
	9,395	22,372	-	-
20. Contributed equity				
Share capital				
154,724,477 (2003: 128,579,064) ordinary shares, fully paid	155,053	124,982	155,053	124,982
Movements during the year				
Balance at beginning of year	124,982	124,931	124,982	124,931
Shares issued:				
◆ 25,781,413 (2003: Nil) for $1.20 per share pursuant to a rights issue prospectus	30,938	-	30,938	-
◆ Transaction costs arising from issue pursuant to a rights issue prospectus	(1,301)	-	(1,301)	-
◆ 310,000 (2003: Nil) from the exercise of options at $1.15 per share under the Director's and Executives' option plans	356	-	356	-
◆ 54,000 (2003: 35,000) convertible notes at $1.45 per share converted to ordinary shares	78	51	78	51
Balance at end of year	155,053	124,982	155,053	124,982

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
21. Retained profits					
Retained profits at beginning of year		13,941	11,268	1,505	1,247
Net profit		11,743	10,900	982	8,485
Dividends recognised during the year	22	(1,286)	(8,227)	(1,286)	(8,227)
Retained profits at end of year		24,398	13,941	1,201	1,505

	Cents per share	Total Amount $	Franked/ Unfranked	Date of payment
22. Dividends				
2004				
2003 final – ordinary	1.0	1,285,791	Franked	20 October 2003
2003				
Interim – ordinary	3.2	4,113,410	Franked	23 April 2003
2002 final – ordinary	3.2	4,113,410	Franked	18 October 2002
Total amount	6.4	8,226,820		
Subsequent events				
Since the end of the financial year, the directors declared the following dividend:	3.78	5,871,500	Franked	30 September 2004

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2004 and will be recognised in subsequent financial reports.

	The Company 2004 $'000	The Company 2003 $'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	3,714	2,951

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability/receivable

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the year-end

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

23. Segment reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period. Inter-segment pricing is determined on an arm's length basis.

	Operating $'000	Exploration and evaluation $'000	Other $'000	Eliminations $'000	Consolidated $'000
Primary Reporting – Business segments					
2004					
External revenue	224,887	-	460	-	225,347
Inter-segment revenue	-	-	8,071	(8,071)	-
Total segment revenue	224,887	-	8,531	(8,071)	225,347
Result					
Segment result	17,092	(2,215)	993	-	15,870
Profit from ordinary activities before tax					15,870
Income tax expense					(4,127)
Profit from ordinary activities after tax					11,743
Depreciation and amortisation	12,306	3	619	-	12,928
Non-cash expenses other than depreciation and amortisation	1,709	-	21	-	1,730
Individually significant items	4,757	-	-	-	4,757
Assets					
Segment assets	307,631	41,523	113,106	(86,502)	375,758
Consolidated total assets					375,758
Liabilities					
Segment liabilities	105,390	42,500	49,980	(1,563)	196,307
Consolidated total liabilities					196,307
Acquisitions of non-current assets	36,469	4,176	-	-	40,645

	Asia $'000	Europe $'000	Americas $'000	Other $'000	Elminations $'000	Consolidated $'000
Secondary Reporting – Geographical segments						
2004						
External segment revenue by location of customers	110,357	83,183	28,240	3,567	-	225,347

The consolidated entity operates predominately in Australia. All segment assets from ordinary activities relate to operations in Australia.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

23. Segment reporting (continued)

	Operating $'000	Development $'000	Exploration and evaluation $'000	Other $'000	Eliminations $'000	Consolidated $'000
Primary Reporting – Business segments						
2003						
External revenue	137,538	2,177	-	262	(1,061)	138,916
Inter-segment revenue	-	-	-	13,504	(13,504)	-
Total segment revenue	137,538	2,177	-	13,766	(14,565)	138,916
Result						
Segment result	20,827	(783)	(1,325)	8,331	(9,498)	17,552
Profit from ordinary activities before tax						17,552
Income tax expense						(6,652)
Profit from ordinary activities after tax						10,900
Depreciation and amortisation	7,493	43	-	562	-	8,098
Exploration expenditure written off	852	-	-	-	-	852
Non-cash expenses other than depreciation and amortisation	1,313	-	5	53	-	1,371
Assets						
Segment assets	207,586	75,696	35,835	169,997	(174,980)	314,134
Consolidated total assets						314,134
Liabilities						
Segment liabilities	135,325	63,536	37,569	43,638	(104,857)	175,211
Consolidated total liabilities						175,211
Acquisitions of non-current assets	19,662	30,852	9,812	32	-	60,358

	Asia $'000	Europe $'000	Americas $'000	Other $'000	Elminations $'000	Consolidated $'000
Secondary Reporting – Geographical segments						
2003						
External segment revenue by location of customers	59,509	62,197	15,597	1,613	-	138,916

The consolidated entity operates predominately in Australia. All segment assets from ordinary activities relate to operations in Australia.

24. Interests in joint ventures

The consolidated entity holds the following interests in various joint ventures whose principal activities are coal production, exploration and evaluation, and development.

	Coppabella and Moorvale Joint Venture		Coppabella Joint Venture		Moorvale Joint Venture		Bowen Basin Coal Exploration Joint Venture		Nebo South Joint Venture		Monto Coal Joint Venture	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Joint Venture % Interest held	73.3%(2)	–(2)	–(2)	50%	–(2)	77%	57%	30%(1)	–(3)	55%	51%	51%
Principal activity	Coal production		Coal production		Development		Exploration		Exploration		Exploration and Evaluation	

(1) Per the farm-in agreement (refer Note 26 (g)(v)) Macarthur Exploration Pty Ltd holds a 43.7% interest in Bowen Basin Coal Exploration Joint Venture. The 57% interest has been applied based upon weighted contributions of existing (prior to farm-in arrangements) and new mining exploration permits.

(2) During the year ended 30 June 2004, the consolidated entity together with the other venturers, were tenants-in-common in various areas of mining interest. 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, the 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 the Moorvale Joint Venture to Coppabella Coal Pty Ltd, resulting in Coppabella Coal Pty Ltd owning 73.3% of the Coppabella and Moorvale Joint Venture.

(3) As part of the conditions precedent for the transaction in (2) above, Macarthur Exploration Pty Ltd, a controlled entity of the consolidated entity, disposed of its interest in the Nebo South Joint Venture for $440,000, an amount equal to the book value of the assets on 1 July 2003.

For the year ended 30 June 2004, the contribution of the Coppabella and Moorvale Joint Venture to the operating profit of the consolidated entity was $25,668,000 (2003: Coppabella Joint Venture $25,079,000). The value of the consolidated entity's 73.3% share of coal mined during the year by Coppabella and Moorvale Joint Venture was $188,487,000 (2003: Coppabella Joint Venture $123,693,000).

There was no coal mined by the other joint ventures during the year.

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1(b).

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
24. Interests in joint ventures (continued)					
Current assets					
Cash assets		4	15	-	-
Receivables		12,681	6,038	-	-
Inventories		11,312	4,239	-	-
Other financial assets		56	330	-	-
Other		36,228	23,714	-	-
Total current assets		60,281	34,336	-	-
Non-current assets					
Receivables		105	131	-	-
Property, plant and equipment		186,017	131,433	-	-
Exploration, evaluation and development		37,126	62,646	-	-
Other		2,993	2,683	-	-
Total non-current assets		226,241	196,893	-	-
Total assets		286,522	231,229	-	-
Current liabilities					
Payables		26,704	21,654	-	-
Provisions		1,612	1,123	-	-
Other financial liabilities		1,570	1,002	-	-
Total current liabilities		29,886	23,779	-	-
Non-current liabilities					
Provisions		8,349	4,305	-	-
Other financial liabilities		14,346	6,184	-	-
Total non-current liabilities		22,695	10,489	-	-
Total liabilities		52,581	34,268	-	-

Refer to Notes 26 and 27 for details of commitments and contingent liabilities.

25. Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Cash assets	8	11,775	6,825	11,686	6,728

25. Notes to the statements of cash flows (continued)

(b) Reconciliation of operating profit after income tax to net cash provided by/(used in) operating activities

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Profit from ordinary activities after income tax	11,743	10,900	982	8,485
Add/(less) items classified as investing/financing activities:				
◆ (Profit)/loss on sale of non-current assets	2,002	-	(5)	-
◆ Interest on convertible notes	3,002	1,934	3,002	1,934
◆ Interest on interest bearing liabilities	3,408	1,597	145	-
◆ Exploration costs expensed	258	-	-	-
Add/(less) non-cash items:				
◆ Amortisation				
❖ mining property	5,726	4,998	-	-
❖ borrowing costs	1,316	552	598	315
◆ Amounts set aside to provisions	2,402	1,370	28	52
◆ Unrealised foreign exchange losses	38	748	-	-
◆ Depreciation	5,886	2,403	21	23
◆ Exploration expenses written off	-	852	-	27
◆ Borrowing costs written off	1,912	-	-	-
◆ Overburden in advance written off	2,845	-	-	-
◆ Write down in value of investments in controlled entities to recoverable amount	-	-	17,521	-
Net cash provided by/(used in) operating activities before change in assets and liabilities:	40,538	25,354	22,292	10,836
Change in assets and liabilities adjusted for effects of purchase and disposal of joint venture interests during the financial year:				
◆ Increase/(decrease) in income tax payable	(1,244)	(3,817)	(1,384)	1,055
◆ Increase/(decrease) in net deferred tax payable	1,872	5,829	1,872	9,444
◆ (Increase)/decrease in tax related receivables	-	-	6,524	(10,652)
◆ (Increase)/decrease in tax receivable	(7,000)	-	(7,000)	-
◆ (Increase)/decrease in receivables	(7,593)	(7,151)	(233)	32
◆ (Increase)/decrease in inventories	(5,904)	(2,998)	-	-
◆ (Increase)/decrease in overburden in advance	(1,752)	(15,026)	-	-
◆ (Increase)/decrease in prepayments	434	(5)	170	(175)
◆ (Increase)/decrease in deferred expenditure	1,397	(3,771)	(31)	(1,709)
◆ Increase/(decrease) in creditors and accruals	(1,801)	3,657	(179)	480
◆ Increase/(decrease) in deferred realised gains on foreign currency contracts	-	842	-	-
Net cash provided by/(used in) operating activities	**18,947**	**2,914**	**22,031**	**9,311**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

26. Commitments

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
(a) Capital expenditure commitments				
Joint ventures				
Buildings and infrastructure contracted for but not provided for in the financial statements and payable:				
◆ Not later than one year	20	15,998	-	-
(b) Operating lease commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
◆ Not later than one year	133	141	133	141
◆ Later than one year but not later than five years	71	155	71	155
	204	296	204	296
The Company leases property under non-cancellable operating leases expiring from three to five years. Leases generally provide the Company with a right of renewal at which time all terms are negotiated.				
(c) Mining leases — joint ventures				
Future mining lease rentals not provided for in the financial statements and payable:				
◆ Not later than one year	281	223	-	-
◆ Later than one year but not later than five years	867	769	-	-
◆ Later than five years	2,805	2,633	-	-
	3,953	3,625	-	-
(d) Exploration and evaluation expenditure commitments				
Exploration obligations				
In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. The expenditure obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial statements and are payable:				
◆ Not later than one year	1,096	885	-	-
◆ Later than one year but not later than five years	202	253	-	-
	1,298	1,138	-	-
Exploration costs				
Committed costs for exploration and evaluation areas not provided for in the financial statements and payable:				
◆ Not later than one year	223	-	-	-
◆ Later than one year but not later than five years	40	-	-	-
	263	-	-	-

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
26. Commitments (continued)				
(e) Operating commitments – joint ventures				
Commitments under the electricity, water, rail, port, coal washing plant and train loading facility agreements for joint ventures not provided for in the financial statements and payable:				
◆ Not later than one year	20,219	12,675	-	-
◆ Later than one year but not later than five years	75,550	52,037	-	-
◆ Later than five years	26,300	46,120	-	-
	122,069	110,832	-	-
(f) Employee remuneration commitments				
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:				
◆ Not later than one year	265	265	265	265

The above amounts represent minimum commitments under these arrangements offset by any amounts brought to account as liabilities at 30 June 2004.

In addition to the operating commitments in (e) above, other contracts on commercial terms and conditions have been entered into with contractors for overburden and mining operations at Coppabella and Moorvale mines and with original landowners regarding royalty arrangements. As the amounts payable under the contracts vary with the quantities mined and sold, future commitments are not able to be reliably assessed and quantified.

On 23 October 2002, the Coppabella and Moorvale Joint Venture participants agreed to pay a user charge to the Queensland Government for the facilitation of the transport infrastructure corridor (TIC) relocation. The user charge comprises 40 quarterly payments (consolidated entity share of $661,000 per quarter; 2003: $451,000 per quarter), commencing 1 October 2002, which have been included in the above operating commitments less the amounts payable for future user charges brought to account at 30 June 2004 (refer Note 18).

(g) Other commitments

(i) The Company has guaranteed the obligations of Monto Coal 2 Pty Ltd, a controlled entity, in relation to outstanding payments in connection with acquisition of Monto Coal 2 Pty Ltd's 51% interest in the Monto Coal Joint Venture.

Joint ventures

Deeds of cross charge

(ii) The payment of future cash calls by Coppabella Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Coppabella and Moorvale Joint Venture is secured by a guarantee from the Company and a charge over Coppabella Coal Pty Ltd's interest in the Coppabella and Moorvale Joint Venture in favour of the other joint venturers and Australian Premium Coals Pty Ltd as the manager of the Coppabella and Moorvale Joint Venture.

(iii) The payment of future cash calls by Monto Coal 2 Pty Ltd, a controlled entity, for its share of operating and capital costs in the Monto Coal Joint Venture is secured by a charge over Monto Coal 2 Pty Ltd's interest in the Monto Coal Joint Venture in favour of the other joint venturers.

(iv) Farm-in obligations (refer (v) below) and payment of future cash calls by Macarthur Exploration Pty Ltd, a controlled entity, for its share of operating and capital costs in the Bowen Basin Coal Exploration Joint Venture is secured by a charge over Macarthur Exploration Pty Ltd's interest in the Bowen Basin Coal Exploration Joint Venture in favour of the other joint venturers.

Other

(v) A farm-in arrangement has been entered into between Macarthur Exploration Pty Ltd, a controlled entity, and the participants of the Bowen Basin Coal Exploration Joint Venture which entitles Macarthur Exploration Pty Ltd to earn an interest in various exploration tenements including the Olive Downs Project progressively as it fulfils its exploration expenditure commitments totalling $7,500,000 over a 4 year period from 1 July 2001. Exploration expenditure for the 3 years to 30 June 2004 was $6,840,000 leaving $660,000 remaining to be spent in the next year.

(vi) The Company has guaranteed the commitments of Coppabella Coal Pty Ltd, Macarthur Exploration Pty Ltd and Monto Coal 2 Pty Ltd, controlled entities, in relation to royalty arrangements.

27. Contingent liabilities and assets

The details and estimated maximum amounts of contingent liabilities where the probability of future payments is not considered remote are set out below, as well as details of contingent liabilities, which although considered remote, the directors consider should be disclosed.

The directors are of the opinion that provisions are not required in respect of the contingent liabilities, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2004. (1)

The Company has agreed to indemnify Queensland Rail for the costs incurred to upgrade the Monto to Gladstone rail line until the Monto Coal Joint Venture enters into a Rail Infrastructure Agreement with Queensland Rail. During the year the Rail Infrastructure Agreement was executed. As a result, the estimated indemnity to Queensland Rail not recognised as a liability in the financial statements as at 30 June 2004 is $Nil (2003: $3,160,000). (1)

(1) These contingent liabilities are not considered remote.

Guarantees

(i) Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling $35,281,000 (2003: $19,453,000) in respect of rehabilitation works, electricity, transport infrastructure corridor facilities and customers. In 2003 Moorvale Coal Pty Ltd, a controlled entity, as participant of the Moorvale Joint Venture provided bank guarantees totalling $7,708,000 in respect of rehabilitation works, electricity and rail facilities. These are now provided by Coppabella Coal Pty Ltd under the unified joint venture.

(ii) The consolidated entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into a Residual Value Guarantee (RVG) with a bank regarding the lease residual value of the dragline used by a contractor at the Coppabella Mine for $10,775,000 (2003: $7,350,000). The lease term expires on 30 June 2008. Management of Australian Premium Coals Pty Ltd, the manager of the Coppabella and Moorvale Joint Venture, expect the future value of the dragline to be in excess of the residual value at 30 June 2008 provided the contractor performs to the Asset Management Plan. The financier of the dragline also holds a fixed and floating charge over Coppabella Coal Pty Ltd's interests up to the agreed share of the residual value being $10,775,000 (2003: $7,350,000).

(iii) Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has entered into the Coppabella Dragline Agreement dated 19 April 2002 requiring purchase guarantees to be provided in relation to the Marion 8200 dragline erected by Roche Mining Pty Ltd (Roche) and that will be used by Roche in undertaking a contract, being for the removal of overburden and mining of coal. In the event of a termination of the contract, the guarantees in place require Australian Premium Coals Pty Ltd, as agent for the Coppabella and Moorvale Joint Venture, to assume all the reasonable continuing liabilities of the dragline, any items that relate to the construction or operation of the dragline (including spare parts) and any financing responsibilities in relation to the operating lease between Roche and the Lease Financiers including Investec Bank (Australia) Limited.

Litigation

On the 19 December 2003, Australian Premium Coals Pty Ltd, an associated company 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 claim included recovery of loss and damages for higher production costs and demurrage as a result of the lack of coal delivered to Australian Premium Coals Pty Ltd.

On the 9 June 2004, the contractor lodged a Notice of Dispute under the terms of the mining contract. The claim included higher costs of mining due to delay in access to particular mining areas and higher costs due to adverse mining conditions. On the 28 June 2004, the contractor referred the Notice of Dispute to arbitration.

No amounts have been recognised in the financial statements in relation to the above disputes as the matters have not reached a stage where the directors can make a reliable estimate of the outcomes.

Environmental

Current Queensland Government environment policy requires the preparation of an Environmental Management Overview Strategy (EMOS) and a Plan of Operations detailing the quality, timing and standards of planned mine rehabilitation work. The Coppabella and Moorvale Joint Venture has prepared its EMOS and its Plans of Operations has been accepted by the Environmental Protection Agency. In addition to the EMOS and the Plans of Operations, the consolidated entity is required to lodge securities with the Department of Natural Resources and Mines to ensure compliance with relevant legislation. The total amount of the guarantees lodged with the Department of Natural Resources and Mines as at 30 June 2004 is $8,689,000 (2003: $6,214,000) (included in the amount of guarantees referred to above).

28. Controlled entities

Particulars in relation to controlled entities

Name	Interest held 2004 %	Interest held 2003 %
Parent entity		
Macarthur Coal Limited		
Controlled entities		
Coppabella Coal Pty Ltd	100	100
Olive Downs Coal Pty Ltd (previously Coppabella Coal (Jpn) Pty Ltd) [(A)]	100	100
Moorvale Coal Pty Ltd [(A)]	100	100
Moorvale Interest Pty Ltd [(A)]	100	100
Macarthur Exploration Pty Ltd [(A)]	100	100
Macarthur Coal Management Pty Ltd [(A)]	100	100
Monto Coal Pty Ltd [(A)]	100	100
Monto Coal 2 Pty Ltd [(A)]	100	100

All controlled entities were incorporated and carry on business in Australia.

[(A)] No separate audit opinion is issued as it is not required in the place of incorporation. The results and the state of affairs of the entity have been reviewed in forming the audit opinion on the financial report of the consolidated entity.

29. Investments in associated entities

Details of investments in associates are as follows:

Name	Principal Activities	Reporting date	Interest held 2004 %	Interest held 2003 %
Australian Premium Coals Pty Ltd	Manager of the Coppabella and Moorvale Joint Venture	30 June	73.3	50
Bistrotel Pty Ltd	Property Owner	30 June	73.3	50

The carrying amount of investments in associated entities at 30 June 2004 is $293 (2003: $200). Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, the Company 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.

30. Directors and executive disclosures for disclosing entities

Remuneration of specified directors and specified executives by the consolidated entity

Remuneration levels are set to fall within the market range for comparable companies with the flexibility to attract and retain the best people for the consolidated entity's team.

The Remuneration and Nomination Committee formally reviewed the consolidated entity's remuneration policy in December 2003. The review identified a need for more structured guidelines with respect to incentives and bonuses. The Chief Executive Officer worked with management to produce a revised set of key performance indicators (KPIs) for management which are aligned with the consolidated entity's strategy. The KPIs were presented to the board in July 2004. KPIs are now being developed for all personnel to complement the KPIs of management.

Performance will be measured against KPIs and outstanding performance will be recognised and remunerated accordingly. The committee has determined that bonuses will not exceed 20% of a full time employee's salary and will be determined with due consideration of the consolidated entity's overall performance relative to its budget and the individual's personal performance.

This bonus policy is intended to ensure equitable application of incentive based remuneration and will be monitored by the committee to ensure that it achieves the goal of encouraging employees to maximise consolidated entity performance and sustainable shareholder return.

30. Directors and executive disclosures for disclosing entities (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

Shareholding by staff and contractors' mine site employees is encouraged to align employee interests with shareholder interests. The consolidated entity plans to provide practical support to eligible employees by offering interest free loans to fund on market Macarthur Coal Limited share purchases. Loans are to range from $3,000 to $10,000 per year depending on seniority. Employees will be entitled to utilise the loan facility annually to build on their existing shareholding.

Shareholders approved an increase from $150,000 to $220,000 in the total amount payable to directors at the AGM in November 2003. The increase accommodated the addition of a fifth director.

The workload, responsibilities and liabilities for directors has increased substantially over the last three years. The Company intends to increase payments to each director. Shareholders will be asked to approve an increase in total non-executive directors' fees to $350,000 to accommodate director remuneration increases.

The total remuneration for each non-executive director includes an obligation to take Macarthur Coal Limited shares to the value of $10,000 in lieu of cash, in order to strengthen alignment with shareholder interests.

The allocation of fees to non-executive directors will be:

	Current Fees $	Proposed Fees $
Base fees	$35,000	$45,000 plus $10,000 of Macarthur Coal Limited securities
Fee for committee participation	$5,000	$10,000
Fee for chairing the Board of Directors	$20,000	$25,000
Fee for chairing the Audit and Risk Management Committee	$10,000	$15,000

Non-executive directors do not receive any performance related remuneration nor do they receive any retirement benefits.

The following table provides the details of all directors of the Company (specified directors) and the five or more executives of the consolidated entity with the greatest authority (specified executives) and the nature and amount of the elements of their remuneration for the year ended 30 June 2004.

	Primary			Post - employment		
	Salary & Directors' Fees $	Other Fees $	Non-monetary Benefits $	Super-annuation $	Other Compensation $	Total $
2004						
Specified directors						
Non-executive						
Hon. Keith De Lacy	59,633	-	8,093	5,367	4,267	77,360
Roger Marshall	32,110	100,000	552	2,890	4,267	139,819
Don Nissen	41,284	-	552	3,716	4,267	49,819
Peter Forbes [(1)]	21,407	-	-	1,927	4,267	27,601
Executive						
Ken Talbot	197,593	-	9,616	78,445	4,267	289,921
Total	352,027	100,000	18,813	92,345	21,335	584,520

[(1)] Appointed 14 November 2003.

30. Directors and executive disclosures for disclosing entities (continued)

	Primary			Post - employment		
	Salary & Directors' Fees $	Other Fees $	Non-monetary Benefits $	Super-annuation $	Other Compensation $	Total $
2003						
Specified directors						
Non-executive						
Hon. Keith De Lacy	47,408	-	-	4,267	3,732	55,407
Roger Marshall	28,139	-	-	2,532	3,732	34,403
Don Nissen	28,903	-	-	2,601	3,732	35,236
Executive						
Ken Talbot	201,540	-	-	78,445	3,732	283,717
Total	305,990	-	-	87,845	14,928	408,763

	Primary			Post - employment		
	Gross Salary $	Bonus $	Non-monetary Benefits $	Super-annuation $	Other Compensation $	Total $
2004						
Specified executives						
Robert Adams (1)	112,778	-	54,996	85,000	4,267	257,041
Shane Stephan (2)	197,062	22,750	27,566	16,998	4,267	268,643
Nicole Hollows (3)	178,580	22,750	64,100	13,208	4,267	282,905
Denis Wood (4)	239,555	36,000	5,044	24,800	4,267	309,666
John Greenwood (5)	95,326	-	9,663	36,250	4,267	145,506
Bruce Denney (6)	194,658	-	2,909	16,990	4,267	218,824
Gary Lee (7)	108,827	-	12,738	11,586	4,267	137,418
Ken Carnes (8)	93,750	-	-	-	4,267	98,017
Total	1,220,536	81,500	177,016	204,832	34,136	1,718,020

(1) Company Secretary

(2) General Manager – Business Development and Investor Relations

(3) Chief Financial Officer

(4) Consultant – Special Projects

(5) General Manager – New Projects (resigned 5 December 2003)

(6) Chief Operating Officer (appointed 27 October 2003; resigned 16 July 2004)

(7) Executive President Sales and Marketing (appointed 19 January 2004)

(8) Executive Vice President Sales and Marketing (appointed 15 December 2003)

30. Directors and executive disclosures for disclosing entities (continued)

	Primary			Post - employment		
	Gross Salary $	Bonus $	Non-monetary Benefits $	Super-annuation $	Other Compensation $	Total $
2003						
Specified executives						
Robert Adams [(1)]	147,190	-	48,389	20,000	3,732	219,311
Shane Stephan [(2)]	190,454	-	25,312	16,667	3,732	236,165
Nicole Hollows [(3)]	67,724	-	92,292	6,000	3,732	169,748
John Greenwood [(4)]	186,107	-	19,742	82,054	3,732	291,635
Ian McRae [(5)]	119,944	-	9,268	10,000	3,732	142,944
Total	711,419	-	195,003	134,721	18,660	1,059,803

(1) Company Secretary
(2) General Manager – Business Development and Investor Relations
(3) Chief Financial Officer
(4) General Manager – New Projects (resigned 5 December 2003)
(5) Consultant – Monto Project (resigned 20 December 2002)

Equity instruments

Option holdings

All options refer to options over ordinary shares of the Company, which are exercisable on a one for one basis under the Directors' Option Plan and Executive Option Plan (refer Note 33).

Options granted to directors are on the same terms and conditions as those granted to other employees. There were no options granted during the year.

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Exercised	Held and Exercisible at 30 June 2004
Specified directors			
Hon. Keith De Lacy	300,000	-	300,000
Roger Marshall	300,000	-	300,000
Don Nissen	300,000	100,000	200,000
Peter Forbes	-	-	-
Ken Talbot	-	-	-
Specified executives			
Robert Adams	300,000	100,000	200,000
Shane Stephan	180,000	50,000	130,000
Nicole Hollows	180,000	60,000	120,000
Denis Wood	-	-	-
Bruce Denney	-	-	-
Gary Lee	-	-	-
Ken Carnes	-	-	-
John Greenwood	-	-	-

No options held by specified directors or specified executives are vested but not exercisable.

30. Directors and executive disclosures for disclosing entities (continued)

All shares issued on exercise of options are set out below. The amount paid per share on exercise of the options was $1.15 per share. There are no amounts unpaid on shares issued as a result of the exercise of the options.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities are as follows:

	Held at 1 July 2003	Purchases	Received on exercise of options	Sales	Held at 30 June 2004
Specified directors					
Hon. Keith De Lacy	103,000	15,600	-	-	118,600
Roger Marshall	100,000	20,000	-	-	120,000
Don Nissen	3,500	20,700	100,000	-	124,200
Peter Forbes	15,000	3,000	-	-	18,000
Ken Talbot	63,296,456	4,157,292	-	-	67,453,748
Specified executives					
Robert Adams	-	21,199	100,000	95,500	25,699
Shane Stephan	17,000	12,000	50,000	7,000	72,000
Nicole Hollows	7,000	12,600	60,000	5,000	74,600
Denis Wood	-	-	-	-	-
Bruce Denney	-	-	-	-	-
Gary Lee	-	-	-	-	-
Ken Carnes	-	-	-	-	-
John Greenwood	-	-	-	-	-

Loans and other transactions with specified directors and specified executives

The Company has entered into standard deeds of indemnity and access with the Directors.

The Chief Executive Officer, Ken Talbot, has a 3 year contract which only provides for a fixed salary.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end.

Loans

There were no loans outstanding at the reporting date to specified directors and specified executives, where the individual's aggregate loan balance exceeded $100,000 at any time in the reporting period.

Other transactions with the Company or its controlled entities

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with directors and personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

30. Directors and executive disclosures for disclosing entities (continued)

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
The aggregate amounts recognised during the year relating to specified directors and their personally-related entities were as follows:				
Specified director / **Transaction**				
Roger Marshall — Payment of consultancy fees for supervision of the farm-in arrangement in the Bowen Basin Coal Exploration Joint Venture	- [(1)]	100,000	-	-
Amounts payable to specified directors and their personally-related entities at reporting date arising from related party transactions were as follows:				
Current payables				
◆ Trade creditors	-	8,700	-	-

[(1)] In accordance with AASB1046 "Director and Executive Disclosures by Disclosures by Disclosing Entities" consultancy fees have been included in remuneration disclosure in 2004.

In accordance with the Bowen Basin Coal Exploration Joint Venture Agreement, Bowen Basin Exploration Pty Ltd (a personally-related entity of Mr Ken Talbot) sold down a 8.13% interest in exploration tenements in the year. The cumulative sell down is 21.9% from the commencement of the joint venture. The sell down is in return for a free carried interest in the joint venture. The consolidated entity via Macarthur Exploration Pty Ltd, a controlled entity, is funding the exploration program.

31. Non-director related parties

The classes of non-director related parties are:

- associated companies
- wholly-owned controlled entities
- joint venture entities

All transactions with non-director related parties are on normal terms and conditions.

Wholly-owned controlled entities transactions

(a) The Company charges interest at normal commercial rates on loans to its wholly-owned controlled entities. The loans to the wholly-owned controlled entities are unsecured and have no fixed repayment terms. Interest is charged quarterly at 8.405% (2003: 7.755%) per annum on the outstanding balance. Interest totalling $6,400,000 (2003: $4,189,000) was charged to the wholly-owned controlled entities during the year.

(b) The Company also charges management fees to its wholly-owned controlled entities based on the total corporate office expenses. Management fees totalling $1,672,000 (2003: $1,087,000) were charged to the wholly-owned controlled entities during the year.

(c) A wholly-owned controlled entity, Coppabella Coal Pty Ltd, paid a dividend of $17,586,000 (2003: $8,227,000) to the Company.

The aggregate amounts receivable and payable by the consolidated entity and the Company from non-director related parties are shown in Notes 9 and 15. Included in these amounts is the aggregate tax related receivable from wholly-owned controlled entities under the Tax Consolidation legislation.

Macarthur Coal Management Pty Ltd, a controlled entity, charges management fees to Australian Premium Coals Pty Ltd, an associated entity, pursuant to the Management Fee Deed dated 31 August 1998. The management fee paid is equal to 0.5% of the aggregate FOB revenue paid to the Coppabella and Moorvale Joint Venture participants from the sale in aggregate of the first 2 million tonnes of coal from the Coppabella Mine in each financial year for the life of the Deed.

32. Additional financial instruments disclosure

(a) Interest rate risk

The consolidated entity enters into interest rate swaps, forward rate agreements and interest rate options to manage cash flow risks associated with the interest rates on long term borrowings that are floating.

Interest rate swaps and forward rate agreements

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between one and three years. Each contract involves six monthly payment or receipt of the net amount of interest.

The consolidated entity, from time to time, may enter into forward rate agreements to offset changes in the rates paid on the USD term loan floating rate debt. No forward rate agreements were outstanding at year-end (2003: Nil).

Interest rate options

The consolidated entity has entered into interest rate options to reduce the impact of changes in interest rates on the USD term loan floating rate debt. Interest rate options maturing between one and three years were outstanding at year-end and at 30 June 2003.

Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

				Fixed Interest Maturing in:				
	Note	Weighted average interest rate %	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non interest bearing $'000	Total $'000
2004								
Financial assets								
Cash assets	8	5.4%	11,590	-	-	-	185	11,775
Receivables	9	-	-	-	-	-	32,556	32,556
Other financial assets	11	2.2%	18,417	-	-	-	24,352	42,769
			30,007	-	-	-	57,093	87,100
Financial liabilities								
Payables	15	-	-	-	-	-	38,409	38,409
Interest bearing liabilities (1)	16	6.9%	39,748	1,934	35,967	4,537	-	82,186
Other financial liabilities	18	-	-	-	-	-	27,907	27,907
Employee entitlements	33	5.6%	48	-	-	-	65	113
			39,796	1,934	35,967	4,537	66,381	148,615
Interest rate swaps and options(1)			(36,197)	25,312	10,885	-	-	-
2003								
Financial assets								
Cash assets	8	4.7%	6,206	-	-	-	619	6,825
Receivables	9	-	-	-	-	-	18,595	18,595
Other financial assets	11	1.8%	6,453	-	-	-	48,167	54,620
			12,659	-	-	-	67,381	80,040
Financial liabilities								
Payables	15	-	-	-	-	-	32,510	32,510
Interest bearing liabilities (1)	16	7.3%	33,838	-	29,949	-	-	63,787
Other financial liabilities	18	-	-	-	-	-	7,186	7,186
Employee entitlements	33	5.0%	35	-	-	-	57	92
			33,873	-	29,949	-	39,753	103,575
Interest rate swaps (1)			(18,281)	6,372	11,909	-	-	-

(1) The effect of interest rate hedging is incorporated into the weighted average interest rate.

32. Additional financial instruments disclosure (continued)

(b) Foreign exchange risk

The consolidated entity enters into forward foreign exchange contracts and some option based products (smart forwards) to hedge a proportion of anticipated coal sale proceeds denominated in United States dollars and Australian dollar construction costs funded by United States dollar loans, subject to Board approved limits. The terms of these contracts are not more than 3 years. The amount of anticipated future sales and construction costs is forecast in light of current conditions in foreign markets, commitments from customers and to suppliers and experience. All sales from the first of each quarter, after allowing for the natural hedge designations referred to below, are designated as being hedged until all hedge contracts are fully utilised. Notes 1(e) and (f) set out the accounting treatment for foreign currency transactions and hedges.

The following table sets out the gross Australian dollar value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

	Consolidated			
	Weighted Average Rate		Amount	
	2004	2003	2004 $'000	2003 $'000
Sell US dollars				
Not later than one year	0.6631	0.5315	142,556	143,047
Later than one year but not later than two years	0.6414	0.5514	57,189	69,227
Later than two years but not later than three years	-	0.5576	-	43,848
			199,745	256,122

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency sales and construction costs recognised in other assets and other liabilities at Notes 12 and 19 and the timing of their anticipated recognition as part of sales or construction costs are:

	Consolidated Net gain/(loss)	
	2004 $'000	2003 $'000
Not later than one year	8,972	30,129
Later than one year but not later than two years	6,296	11,972
Later than two years but not later than three years	-	7,175
	15,268	49,276

32. Additional financial instruments disclosure (continued)

(b) Foreign exchange risk (continued)

Foreign currency borrowings – specific natural hedge

As described in Note 1(e), foreign currency borrowings have been designated as a specific hedge of future coal sales over the anticipated repayment term of the debt. The following table sets out the Australian dollar equivalent of United States dollar foreign currency borrowings used to hedge United States dollar coal sales, the weighted average exchange rate and the anticipated timing of recognition of any unrealised gains or losses at 30 June 2004:

	Weighted average rate		Amount		Unrealised Gains/(losses)	
	2004	2003	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Not later than one year	0.6186	0.6117	14,367	6,372	1,480	573
Later than one year but not later than two years	0.6186	0.5705	12,308	6,367	1,273	1,074
Later than two years but not later than three years	0.6186	0.5280	9,844	3,364	1,018	883
Later than three years but not later than four years	0.6186	0.5280	5,834	2,690	603	707
Later than four years but not later than five years	0.6186	0.5280	1,977	1,594	205	419
Later than five years	-	0.5280	-	541	-	142
			44,330	20,928	4,579	3,798

The foreign currency borrowings are hedging anticipated coal sales. In accordance with the accounting policy note described in Note 1(f), any unrealised gains and losses on the hedge transactions will be recognised in the financial statements when the underlying transaction occurs.

(c) Commodity price risk

The consolidated entity has managed commodity sales price risk by entering into fixed price annual and long term contracts. Contracts are divided into three categories: contracts reviewed annually for price and tonnage; long term contracts entered into for fixed tonnage with annual price reviews; and fixed price and fixed tonnage long term contracts (82% for 2005 and 22% for 2006 financial years). The sales contracts are generally arranged on a Japanese fiscal year basis with years commencing on 1 April.

(d) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries.

Concentration of credit risk at balance date on trade debtors are: Asia 57% (2003: 25%), Europe 41% (2003: 70%), Brazil Nil% (2003: 5%) and Other 2% (2003: Nil).

Credit risk on cash, deposits and derivative contracts is managed by ensuring that counterparties are recognised financial intermediaries with acceptable credit ratings and using several counterparties for transactions.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large financial institutions. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the consolidated entity. The full amount of the exposure is included in Note 32(b) above.

32. Additional financial instruments disclosure (continued)

(e) Net fair values of financial assets and liabilities

Valuation approach

Recognised financial instruments

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable on-market yield having regard to the timing of the cash flows. The carrying amounts of bank term deposits, trade debtors, other debtors, accounts payable, bank loans and employee benefits approximate net fair value.

The valuation of financial instruments reflects the estimated amounts, which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs), or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

Unrecognised financial instruments

The valuation of financial instruments not recognised on the statement of financial position detailed in this note reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs), or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

Net fair values

Recognised financial instruments

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	Consolidated			
	2004		2003	
	Carrying amount $'000	Net Fair Value $'000	Carrying amount $'000	Net Fair Value $'000
Financial assets				
Cash assets	11,775	11,775	6,825	6,825
Receivables	32,556	32,556	18,595	18,595
Other financial assets				
◆ Foreign currency contracts	24,352	19,501	48,167	40,625
◆ Bank accounts	18,417	18,417	6,453	6,453
Financial liabilities				
Payables	38,409	38,409	32,510	32,510
Interest bearing liabilities				
◆ Reedeemable convertible notes	29,871	39,141	29,949	30,362
◆ Other	52,315	52,315	33,838	33,838
Other financial liabilities				
◆ Foreign currency contracts	9,084	8,718	-	-
◆ Other	18,823	18,823	7,186	7,186
Employee entitlements	113	113	92	92

Cash assets are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

32. Additional financial instruments disclosure (continued)

(e) Net fair values of financial assets and liabilities (continued)

Net fair values (continued)

Unrecognised financial instruments

	Consolidated 2004 $'000	Consolidated 2003 $'000
The net fair value of financial instruments not recognised on the statement of financial position held as at the reporting date are:		
Interest rate swaps and options	370	257

33. Employee benefits

	Note	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Aggregate liability for employee entitlements, including on-costs:					
◆ Current					
❖ Employee benefits provision	17	65	57	65	50
◆ Non-current					
❖ Employee benefits provision	17	48	35	48	35
		113	92	113	85
The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:					
◆ Assumed rate of increase in wage and salary rates		3.20%	2.7%	3.20%	2.7%
◆ Discount rate		5.57%	5.01%	5.57%	5.01%
◆ Settlement term (years)		10	10	10	10
Number of employees					
Number of employees at year end		14	15	13	13

Superannuation plans

The Company and its controlled entities contribute to several defined contribution superannuation plans.

Directors' Option Plan

The Company has a directors' option plan for the Board of Directors.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

All options expire on the earlier of their expiry date or the date the holder ceases to be a director of the Company or the date the holder is dismissed for misconduct or for reasons involving fraud.

33. Employee benefits (continued)

Unissued ordinary shares of the Company under option are:

Issue date	Expiry date	Exercise Price	Number of options at beginning of year	Options issued	Options exercised	Number of options at end of year
2004						
5 July 2001	5 July 2006	$1.15	300,000	-	100,000	200,000
5 July 2001	5 July 2006	$1.30	300,000	-	-	300,000
5 July 2001	5 July 2006	$1.45	300,000	-	-	300,000
			900,000	-	100,000	800,000
2003						
5 July 2001	5 July 2006	$1.15	300,000	-	-	300,000
5 July 2001	5 July 2006	$1.30	300,000	-	-	300,000
5 July 2001	5 July 2006	$1.45	300,000	-	-	300,000
			900,000	-	-	900,000

The market price of shares under these options as at 30 June 2004 was $2.01 (2003: $0.95).

During the financial year, the Company issued 100,000 ordinary shares as a result of the exercise of options (2003: Nil). The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading.

The amounts recognised in the financial statements of the Company and consolidated entity in relation to director share options exercised during the financial year were:

		Consolidated		The Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Issued ordinary share capital	20	115	-	115	-

No options expired during the year ended 30 June 2004 (2003: Nil).

33. Employee benefits (continued)

Executive Option Plan

The Company has an executive option plan for key employees of the Company and Australian Premium Coals Pty Ltd, an associated entity.

There are no voting rights attached to unissued ordinary shares. Voting rights will be attached to unissued ordinary shares when the options have been exercised.

All options expire on the earlier of their expiry date or the date the holder ceases to be an executive or the date the holder is dismissed for misconduct or for reasons involving fraud.

Unissued ordinary shares of the Company under option are:

Issue date	Expiry date	Exercise Price	Number of options at beginning of year	Options issued	Options exercised	Options lapsed	Number of options at end of year
2004							
5 July 2001	5 July 2006	$1.15	300,000	-	210,000	-	90,000
5 July 2001	5 July 2006	$1.30	300,000	-	-	-	300,000
5 July 2001	5 July 2006	$1.45	300,000	-	-	-	300,000
			900,000	-	210,000	-	690,000
2003							
5 July 2001	5 July 2006	$1.15	360,000	-	-	60,000	300,000
5 July 2001	5 July 2006	$1.30	360,000	-	-	60,000	300,000
5 July 2001	5 July 2006	$1.45	360,000	-	-	60,000	300,000
			1,080,000	-	-	180,000	900,000

The market price of shares under these options at 30 June 2004 was $2.01 (2003: $0.95).

During the financial year, the Company issued 210,000 ordinary shares as a result of the exercise of options (2003: Nil). The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading.

The amounts recognised in the financial statements of the Company and consolidated entity in relation to executive share options exercised during the financial year were:

		Consolidated		The Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Issued ordinary share capital	20	241	-	241	-

No options expired during the year ended 30 June 2004 (2003: 180,000).

Employee Share Plan

The Company established an Employee Share Plan (ESP) which was used to provide an opportunity for employees to participate in the Initial Public Offering. On 2 July 2001, 180,000 shares were issued to 60 eligible employees at an issue price of $1.00 per share with a limit of 3,000 shares per employee.

All shares issued under the ESP rank equally with all other shares for time being on issue.

The Company provided interest free loans to employees to enable them to acquire shares under ESP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under ESP will, to the extent determined by the directors, be first used to offset any loans outstanding on the shares. Employees have also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

33. Employee benefits (continued)

The loan will be repayable:

(a) if default is made by the employee on the repayment of the loan; or

(b) the employee's employment with the Company, its subsidiary or associate or the relevant contractor is terminated for any reason; or

(c) the employee becomes insolvent or commits an act of bankruptcy.

The Company holds security over the shares the subject of a loan until the loan is repaid.

The market price of shares issued under the ESP as at 30 June 2004 was $2.01 (2003: $0.95).

There were no other shares eligible for issuance under ESP at 30 June 2004.

		Consolidated		The Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
The amount recognised in the financial statements of the consolidated entity and the Company in relation to employee shares during the year were:					
Issued ordinary share capital (180,000 shares at $1 each)	20	180,000	180,000	180,000	180,000
Employee loans payable at 30 June 2004	9	26,362	56,269	26,362	56,269

34. Events subsequent to balance date

Tax consolidation

The Government has announced that it plans to amend the Tax Consolidation legislation. Details of the proposed changes are not yet available. The effects of any change will be brought to account when the legislation is substantively enacted and the consolidated entity can assess the impact.

Allotment of shares

On 24 August 2004 the Board approved the allotment of 660,000 ordinary shares to directors and executives exercising options held at 30 June 2004.

International Financial Reporting Standards

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

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effect of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australia GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The consolidated entity has established a formal project, monitored by the Audit and Risk Management Committee, to achieve transition to IFRS reporting, beginning with the half-year ended 31 December 2005. The Company's implementation project consists of three phases as described below.

34. Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS
- Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes
- Evaluation of the implications for staff, for example training requirements
- Preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems accounting and business processes and staff training.

The assessment and planning phase is expected to be completed by 31 December 2004.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- Formulating revised accounting policies and procedures for compliance with IFRS requirements
- Identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS
- Developing revised IFRS disclosures
- Designing accounting and business processes to support IFRS reporting obligations
- Identifying and planning required changes to financial reporting and business source systems
- Developing training programs for staff.

The design phase is expected to be completed during the upcoming financial year.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the Company has not yet commenced the implementation phase. However, the Company expects this phase to be substantially complete by 30 June 2005.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value
- Income tax will be calculated based on the “balance sheet” approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity
- Exploration and evaluation costs may be required to be expensed as incurred. However the current IASB Exposure Draft 6 proposes the grandfathering of costs carried forward at implementation date. Any costs carried forward will be subject to impairment testing
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether exploration, evaluation and development costs, interests in mining tenements and cash-generating operations have been impaired on an annual basis
- Some off-balance sheet transactions may be required to be brought to account
- Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services
- Rehabilitation provisions will be measured on the discounted anticipated cash flows at a risk free discount rate
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

In the opinion of the directors of the Company, no transaction or event of a material or unusual nature is likely to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years, other than the matters outlined above.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Macarthur Coal Limited ("the Company"):
   (a) the financial statements and notes, set out on pages 40 to 86, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
      (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
   (b) 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 24th day of August 2004.

Signed in accordance with a resolution of the directors.

Hon. Keith De Lacy
Chairman

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes 1 to 34 to the financial statements, and the directors' declaration set out on pages 40 to 87 for both Macarthur Coal Limited (the Company) and Macarthur Coal Limited and its Controlled Entities (the Consolidated Entity), for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during that 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 accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Independence

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

Audit opinion

In our opinion, the financial report of Macarthur Coal Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Robert S Jones

Robert S Jones
Partner

Brisbane
24 August 2004

INVESTORS QUICK REFERENCE GUIDE

Key reporting events

Lodgement of quarterly report with the ASX	Within one month following each quarter end (31 December, 30 March, 30 June, 30 September)
Lodgement of half year financial results with the ASX	Within two months following half year end (31 December)
Lodgement of the full financial year results with the ASX	Within two months following financial year end (30 June)
Lodgement of the annual report with the ASX	Within 17 weeks of financial year end
AGM	Within five months of 30 June of each year

Dividend policy

The dividend policy is to pay approximately 50% of net profit after tax as a dividend.

Shareholder Communications Plan

Macarthur's Shareholder Communications Plan is available in the Corporate Governance section of the Macarthur Coal website: http://www.macarthurcoal.com.au/corporate_governance/index.php?Inv=26

The Company is dedicated to the provision of timely, balanced communication using plain language.

Continuous disclosure

All Macarthur Coal ASX announcements are available to shareholders on the Macarthur Coal website. You can subscribe to receive ASX announcements via email by addressing emails to info@macarthurcoal.com.au or visiting the website: http://www.macarthurcoal.com.au/contacts_feedback/email_enquiry.php

Corporate governance

The ASX Corporate Governance Councils' corporate governance principles and best practice recommendations are set out for reference. Symbols (XX) are used in the Corporate Governance section of this report (refer pages 25 to 31) to denote each of the ASX Corporate Governance Council's recommendations that are met by Macarthur.

1. **Lay solid foundations for management and oversight**
   - 1.1 Formalise and disclose the functions reserved to the board and those delegated to management.
2. **Structure the board to add value**
   - 2.1 A majority of the board should be independent directors
   - 2.2 The chairperson should be an independent director
   - 2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual
   - 2.4 The board should establish a nomination committee
   - 2.5 Provide the information indicated in Guide to reporting on Principle 2.
3. **Promote ethical and responsible decision making**
   - 3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:
     - ❖ The practices necessary to maintain confidence in the company's integrity
     - ❖ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices
   - 3.2 Disclose the policy concerning trading in company securities by directors, officers and employees
   - 3.3 Provide the information indicated in Guide to reporting on Principle 3.
4. **Safeguard integrity in financial reporting**
   - 4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards
   - 4.2 The board should establish an audit committee
   - 4.3 Structure the audit committee so that it consists of:
     - ❖ Only non-executive directors
     - ❖ A majority of independent directors
     - ❖ An independent chairperson, who is not chairperson of the board
     - ❖ At least three members
   - 4.4 The audit committee should have a formal charter
   - 4.5 Provide the information indicated in Guide to reporting on Principle 4.
5. **Making timely and balanced disclosure**
   - 5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance
   - 5.2 Provide the information indicated in Guide to reporting on Principle 5.
6. **Respect the rights of shareholders**
   - 6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings
   - 6.2 Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
7. **Recognise and manage risk**
   - 7.1 The board or appropriate board committee should establish policies on risk oversight and management
   - 7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:
     - ❖ The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board
     - ❖ The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects

INVESTORS QUICK REFERENCE GUIDE

Corporate governance (continued)

7.3 Provide the information indicated in Guide to reporting on Principle 7.

8. Encourage enhanced performance

8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

9. Remunerate fairly and responsibly

9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance

9.2 The board should establish a remuneration committee

9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives

9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders

9.5 Provide the information indicated in Guide to reporting on Principle 9.

10. Recognise the legitimate interests of stakeholders

10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

Further details regarding the ASX Corporate Governance Council can be found on the ASX website: http://www.asx.com.au/shareholder/CorporateGovernancePractices_as2.shtm

Share registry

The following shareholder forms are available from Computershare and are on the Computershare website, under the heading "Investor Relations – FAQ's and Forms": http://www-au.computershare.com/

- Change of address notification
- Change of account designation
- Direct Credit Instruction
- Minor(s) statement and indemnity
- Name change-statutory declaration
- Name correction request and indemnity
- Request to consolidate holdings
- Standard transfer
- Annual report election
- TFN, ABN or exemptions notification.

All forms should be submitted directly to Computershare:

Computershare
Level 27, Central Plaza One
345 Queen Street
Brisbane 4000
GPO Box 523
Brisbane 4001

Telephone 3237 2100
Facsimile 3229 9860
Website http://www-au.computershare.com/

New website

The Macarthur website assists Macarthur's continuous disclosure regime and complements the information provided to the ASX by providing copies of all Macarthur's ASX announcements.

The site is fast loading and easy to navigate.

The website contains the following information:

- Information on Macarthur Coal's investments
- Corporate profile:
  - Structure
  - Leadership
- Share price
- All ASX announcements since incorporation in 2001
- Share registry details
- Quarterly, Half Yearly and Annual reports
- General Meeting information:
  - Notices of meeting
  - Chairman's addresses
  - Chief Executive Officer's addresses
  - Resolution results
- Corporate governance policies
- Marketing details.

Website content is reviewed and updated regularly. Share price information is updated every 20 minutes via a link to the ASX. The Top 20 shareholder list is updated monthly and photographs of operational progress are uploaded several times annually.

An officer has been appointed to deal with shareholder enquiries via the website.

The website address is: http//www.macarthurcoal.com.au

Shareholder feedback

Feedback or comments with respect to shareholder communication are welcome.

Communications Officer
Macarthur Coal Limited
PO Box 7146 Riverside Centre
Brisbane Q 4001

ADDITIONAL SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Substantial shareholders as at 13 September 2004

The number of substantial shareholders and their associates are set out below.

Shareholder	Number of ordinary shares held	%
Ken Talbot and related entities	67,453,748	43.41
CITIC Australia Coal Pty Ltd	19,189,775	12.35
Asset Value Investors Ltd	8,901,078	5.73

Voting rights

Ordinary shares – Refer to Note 20 of the financial statements.
Employee shares – Refer to Note 33 of the financial statements.
Options – Refer to Note 33 of the financial statements.

20 largest shareholders as at 13 September 2004

	Number of ordinary shares held	% of shares held
MDA Investments Pty Ltd	60,550,381	38.97
CITIC Australia Coal Pty Ltd	19,189,775	12.35
Westpac Custodian Nominees Limited	14,525,787	9.35
J P Morgans Nominees Australia Limited	14,500,984	9.33
National Nominees Limited	7,992,337	5.14
MDA International Pty Ltd	6,504,800	4.19
ANZ Nominees Limited	6,455,811	4.15
IOOF Investment Management Limited	1,791,996	1.15
Health Super Pty Ltd	1,120,301	0.72
Citicorp Nominees Pty Limited	881,278	0.57
Queensland Investment Corporation	826,228	0.53
Asia Union Investments Pty Limited	795,000	0.51
Premium Coals Pty Ltd	360,000	0.23
Ms Yvonne De Lacy	300,000	0.19
Dr Thomas John Beresford	230,277	0.15
Abrochild Pty Ltd	200,000	0.13
Ms Suzanne Nissen	200,000	0.13
Fortis Clearing Nominees P/L	193,031	0.12
Dr Gregory John Slater	130,000	0.08
Luton Pty Ltd	120,000	0.08

Distribution of shareholders and their holding as at 13 September 2004

Shareholders	Number of shareholders	Number of shares
1 to 1,000	382	269,036
1,001 to 5,000	1,543	4,712,381
5,001 to 10,000	591	4,487,604
10,001 to 100,000	397	8,580,084
100,001 and over	25	137,335,372
Total	**2,938**	**155,384,477**

ADDITIONAL SHAREHOLDER INFORMATION

The number of shareholders holding less than a marketable parcel of ordinary shares is 14.
There is no current on-market buyback.

20 largest convertible note holders as at 13 September 2004

	Number of notes held	% of notes held
Westpac Custodian Nominees Limited	4,466,002	21.68
National Nominees Limited	1,913,005	9.29
Brispot Nominees Pty Ltd	1,509,707	7.33
Citicorp Nominees Pty Limited	1,004,111	4.87
Clem Jones Pty Ltd	527,700	2.56
Solid Earth Pty Ltd	483,500	2.35
ANZ Nominees limited	455,300	2.21
Asia Union Investments Pty Limited	300,000	1.46
Bond Street Custodians Limited	291,600	1.42
Milton Corporation Limited	172,500	0.84
Mr Bruce Reid	140,000	0.68
Troxfield Pty Ltd	138,000	0.67
Classicist Pty Ltd	100,000	0.49
Pentblack Pty Ltd	100,000	0.49
Peplon Nominees Pty Ltd	79,080	0.38
Mr Robert Archer Black and Dr Ann Carolyn Black	75,000	0.36
Mr Ross William Dunning and Mrs Marlyn Joy Dunning	70,000	0.34
Invia Custodian Pty Limited	70,000	0.34
Mr Roland Desmond Paul	70,000	0.34
Ms Franciska Lasic	67,000	0.33

Distribution of convertible note holders and their holding as at 13 September 2004

Convertible note holders	Number of note holders	Number of convertible notes
1 to 1,000	14	10,825
1,001 to 5,000	542	1,883,643
5,001 to 10,000	360	2,810,960
10,001 to 100,000	198	4,493,807
100,001 and over	13	11,401,425
Total	**1,127**	**20,600,660**

GLOSSARY / ABBREVIATIONS

$M
Million dollars

ACIS
Associate of Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia

ACARP
Australian Coal Association Research Program

ACMER
Australian Centre for Mining Environmental Research

AGM
Annual general meeting

APC
Australian Premium Coals Pty Ltd

ASIA
Associate of the Securities Institute of Australia

Ash
The residue remaining after a pulverised sample of the coal is incinerated under standard laboratory conditions

ASIC
Australian Securities and Investments Commission

ASX
Australian Stock Exchange

B App Sc
Bachelor of Applied Science

bcm
Bank cubic metres

BA
Bachelor of Arts

BE
Bachelor of Engineering

Bowen Basin
The principal coal mining area in Queensland

BBus
Bachelor of Business

CA
Chartered Accountant

Clean coal
Processed coal suitable for marketing

Codisposal system
A system of placement of reject material from coal preparation plants where coarse and fine reject material is disposed of in settling dams

Coking coal
Coal which is suitable for making coke

Corporate governance
The system by which companies are directed and managed

Crude steel
Unrefined steel

Cultural heritage
The requirements set out in the Aboriginal Cultural Heritage Act 2003 regarding significant Aboriginal areas or objects or evidence of archaeological or historical significance of Aboriginal occupation of an area of Queensland

Dividend
Payment from the Company's profits to its shareholders

DUniv
Doctorate of University

Dragline
A large, earthmoving machine with a bucket suspended by cables from a crane like boom

EBIT
Earnings before interest and tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

EPA
Environmental Protection Agency

EPC
Exploration permit for coal

FAICD
Fellow of the Australian Institute of Company Directors

FAIM
Fellow of the Australian Institute of Management

Fault
A fracture in the strata along which there has been an observable displacement

FCIS
Fellow of Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia

FCPA
Fellow of the Certified Practicing Accountants

GAICD
Graduate of the Australian Institute of Company Directors

Gearing ratio
Net interest bearing debt divided by shareholders' equity

Grad Dip CSP
Graduate Diploma in Company Secretarial Practice

Grad Dip Adv Acctg
Graduate Diploma in Advanced Accounting

Hedging
A process to protect against or reduce a risk

High volatile coal
Coal with more than 17% volatile matter

Hon DLitt
Honorary Doctorate of Literature

Indicated Resource
That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely spaced or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed

GLOSSARY / ABBREVIATIONS

Inferred Resource
That part of a Mineral Resources for which tonnage, grade and mineral content can be estimated with a reasonable level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability

IFRS
International Financial Reporting Standards

IPO
Initial Public Offering

JORC Code
A code prepared by the Joint Ore Reserve Committee which defines criteria for publicly reporting resources and reserves

KPIs
Key performance indicators

kV
Kilo volts

Land and Resources Tribunal
An independent statutory body established under the Land and Resources Tribunal Act 1999; a forum to deal with issues in dispute regarding certain proposed resource development and other land management issues

Low volatile coal
Coal with less than 17% volatile matter

LTIFR
Lost time injury frequency rate

MAusIMM
Member of the Australasian Institute of Mining and Metallurgy

MBA (AGSM)
Master of Business Administration from the Australian Graduate School of Management

ME
Masters of Engineering

Measured Resource
That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity

Metallurgical coal
Coal used in the production of steel

Mtpa
Million tonnes per annum

NPAT
Net profit after tax

OBE
Order of the British Empire

Opencut
A mine worked at and from the surface

Overburden
Material which overlies a deposit of useful material

PCI
Pulverised Coal Injection

Pig iron
Raw iron produced from blast furnaces

Prod t
Product tonnes – (raw coal (ROM) x yield% = Prod t)

QR
Queensland Rail

Rangal Coal Measures
Later Permian coal measure in the Bowen Basin and mined at Coppabella and Moorvale mines

PCI coal
Coal which is injected in the blast furnace in the production of pig iron from iron ore

QDA
Queensland Diploma of Agriculture

Raw coal
ROM coal as it is mined from the earth prior to processing

Replacement Ratio
The proportion of PCI coal replacing coke in the blast furnace

Reserves
The economically mineable part of Measured or Indicated Coal Resource at the time of reporting, as defined in the JORC Code

Resources
The term 'Mineral Resource' covers mineralisation which has been identified and estimated through exploration and sampling and within which Ore Reserves may be defined by the consideration and application of technical, economic, legal, environmental, social and governmental factors

ROM
Run of Mine

Thermal coal
Coal which is combusted to provide heat for steam generation and subsequent power generation

Ultra LV
Ultra low volatile

Unincorporated Joint Venture
A business structure in which participants have several liability, fund operating and capital costs and receive the production in proportion to their level of ownership

Working section
The part of the coal seam recovered during mining

Yield
Proportion of coal produced as a fraction of ROM coal from the coal preparation plant

INDEX

COMPANY INFORMATION

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40 096 001 955

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LOCATION OF SHARE REGISTRY
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Level 27, Central Plaza One
345 Queen Street
Brisbane Qld 4000

Telephone: 1300 552 270

Website: www.computershare.com.au

STOCK EXCHANGE
Macarthur Coal is listed on the Australian Stock Exchange.
The Home Exchange is Brisbane.

ASX CODE
Ordinary shares: MCC
Convertible notes: MCCG

OTHER INFORMATION
Macarthur Coal Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

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MACARTHUR COAL LIMITED

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