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Mining operations at Macarthur Coals' mines are undertaken 24 hours per day, seven days per week. Here the moon rises over Coppabella Mine as the night shift commences.

Communication Objective

The 2008 financial year has been one of uncertainty, unforeseen events, obstacles, and challenges but through it all Macarthur Coal has emerged strong, focused and with a clear strategic direction for the future. We have gone from potential takeover activity to one in a hundred-year rain events, from frustrating ongoing infrastructure constraints, to changes in Board membership, and from a company with 120 employees at the beginning of the financial year to one with almost 300 at the end. Although we are still feeling the effects of floods and infrastructure bottlenecks, Macarthur Coal has shown itself to be a successful and profitable member of the Queensland and Australian business communities. We have demonstrated that we can face the challenges head-on, meet and overcome them to build wealth for our shareholders.

It is within this context that we present our 2008 Annual Report.

Through this report we aim to build stakeholder confidence in our organisation by providing a comprehensive examination of our corporate, operational, social and environmental performance during the 2008 financial year. We also include information on our future directions, both in the short and long-term, and we have provided targets by which we will be able to measure and report on our performance in the future.

We present accurate and pertinent information on our activities including milestones achieved and challenges faced in plain language. As part of our commitment to providing accurate, accessible information, this year, in addition to our printed annual report we also provide an interactive electronic version giving more detail of our performance which can be found on our website at www.macarthurcoal.com.au. PDF versions of previous reports (annual, half-yearly and quarterly) can also be found on the Macarthur Coal website.

We have a wide range of stakeholder groups which include but are not limited to the following:

- Our employees
- Our shareholders
- Our customers
- Our business partners
- Contractors
- Suppliers
- Federal and state government departments

- Business analysts
- Financial institutions
- Our communities
- The media
- Educational institutions
- Schools (through our Shares for Schools Program)
- Prospective employees
- Prospective customers
- Prospective shareholders.

WE INVITE YOUR FEEDBACK

We are committed to open and transparent communication and welcome your feedback which can be provided by mail, telephone or email to the following addresses:

Communications Officer
Macarthur Coal Limited
GPO Box 1025
Brisbane QLD 4001

Ph: 617 3221 7210

Email: info@maccoal.com.au

Click on the diagram to zoom.

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The coal handling and processing plant at Coppabella Mine operates 24 hours per day, seven days per week.

Highlights and Achievements

- Inclusion in ASX Top 100 listed companies
- Revenue of $400.2 million
- NPAT of $72.7 million
- Sale of 19.61% interest in the share capital of Monto Coal 2 Pty Ltd to Paway Limited (a member of the Noble Group) for a consideration of $48.5 million
- New electric rope shovel commissioned on time and within budget at Coppabella
- Completion of stage 2 and 3 of the transition to owner operator at Coppabella Mine
- An upgrade of the CHPP at Moorvale was completed early and within budget on 1 October 2007 increasing throughput by 33%
- Commissioning of Burdekin Pipeline
- Granting of mining lease over Pit F at Moorvale Mine
- Signing of a sales contract with Dragon Steel Corporation in July 2007 and signing of a memorandum of understanding with Hyundai Steel Corporation in April 2008 for the supply of PCI coal

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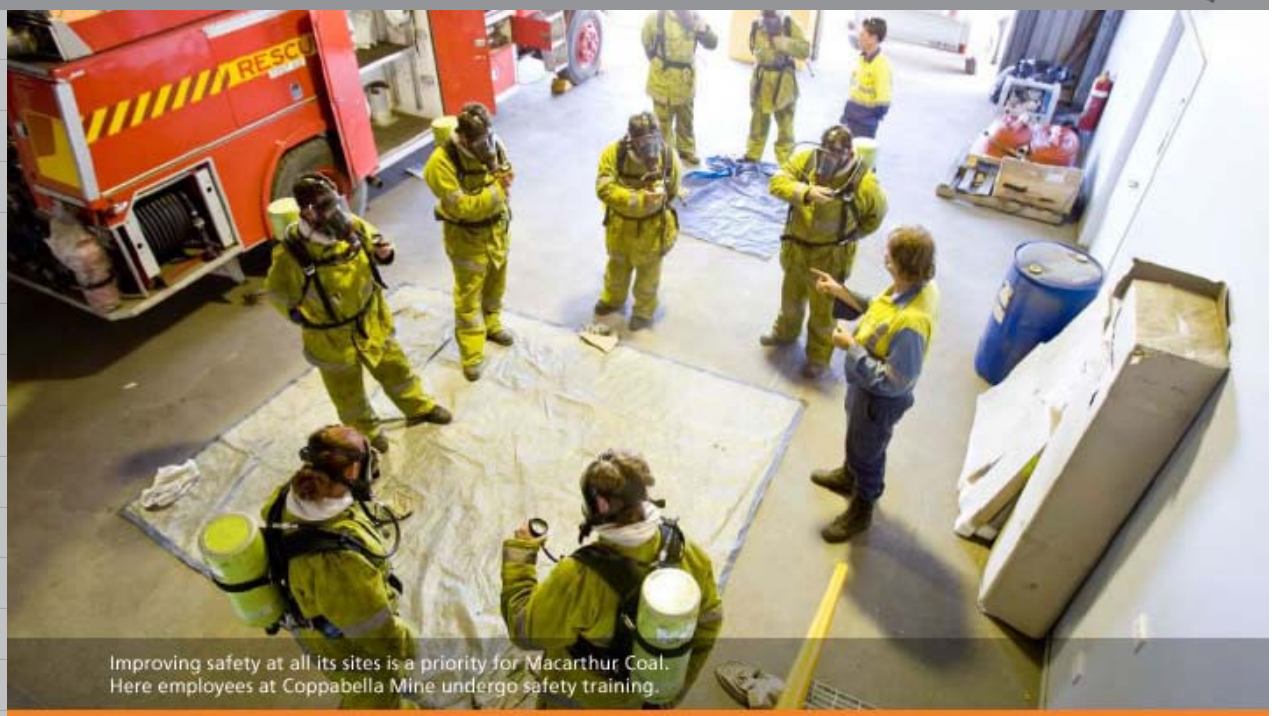

Improving safety at all its sites is a priority for Macarthur Coal. Here employees at Coppabella Mine undergo safety training.

Challenges

- Production difficulties due to significant rain events and declaration of force majeure
- Impact of floods still being felt in the September 2008 quarter with return to full production capacity not expected until January 2009
- Continued infrastructure bottlenecks
- The need to improve safety performance at Coppabella Mine

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Valuing our people is one of Macarthur Coal's fundamental Four Pillars.

Financial Results

		2008	2007	Variance %
Revenue from coal sales	$M	400.2	362.8	10.3
EBITDA	$M	136.2	98.1	38.8
EBIT	$M	117.7	82.0	43.5
Net profit after tax (NPAT)	$M	72.7	66.5	9.3
Earnings per share	Cents	36.6	35.5	3.1
Dividends per share	Cents	17.0	18.0	(5.6)
Gearing (net debt/shareholders' equity)	%	3.8	(19.1)	N/A
Net interest cover (EBITDA/interest paid)	Times	44.7	60.5	N/A
Return on Invested Capital	%	10.0	13.3	N/A
Net Tangible Assets per share	$/share	3.13	2.21	N/A

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An excavator and haul truck working at Coppabella Mine.

Our Financial Contribution to the Economies of the Region, State and Country

		2008	2007
Royalties	$M	31.4	26.8
Company tax	$M	25.3	57.2
Dividends	$M	19.5	54.3
Donations and sponsorships	$	165,902	303,674

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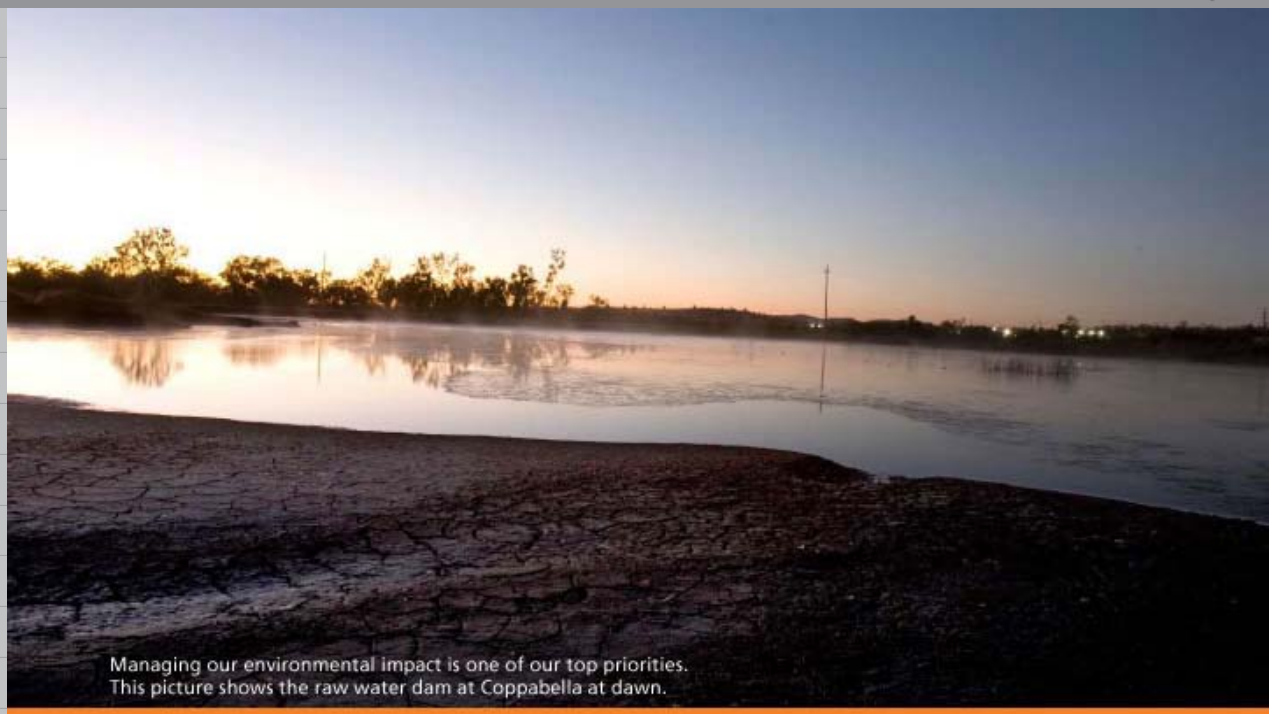

Managing our environmental impact is one of our top priorities.
This picture shows the raw water dam at Coppabella at dawn.

Our Top Five Priorities for 2008

Priority	Achievements
Safety and culture development	Continuing exemplary safety record at Moorvale Mine with another lost time injury (LTI) free year
	Sedgman employees, (operators of the Moorvale and Coppabella coal handling and preparation plants (CHPP)), achieved seven years LTI free at Coppabella
	31% reduction in Coppabella Mine's LTIFR (rolling 12 months to 30 June 2008)
	Implementation of new behavioural safety training regime
	Induction and reinduction of all employees to ensure awareness of safety standards
	Visit from a special guest presenter (minesites and corporate office) to discuss the impact of a workplace accident and the choices we make while on the job
	Comprehensive culture program implemented
	Commencement of construction of accommodation camp
Owner operator	Completion of stage 2 and 3 of the transition to owner operator at Coppabella Mine
	Setting of utilisation and productivity targets for Coppabella equipment
	Resolution of Downer EDI Mining litigation
	Decision to transition to owner operator at Moorvale
	Commitment to purchase mining equipment valued at over $110 million for Moorvale Mine
Cost focus	Commissioning of P&H 4100 electric rope shovel and associated truck fleet to lower costs and reduce diesel usage and emissions at Coppabella Mine
	Connection of the Burdekin and Eastern Spur pipelines to drought-proof operations
	Signing of three-year contract for supply of fuel and lubricants for Coppabella and Moorvale mines
	Rollout of systems to integrate accounts, maintenance, purchasing and payroll to improve efficiency
Grow production	Completion of purchase of Custom Mining Limited including 74.66% of Middlemount

	Mine project
	Progression of Olive Downs North open-cut project
	Commencement of the Middlemount bulk sample pit
	Continuing exploration activity at a number of prospects
	Resource base in the Vermont East/Wilunga area increased
	Completion of a concept mining study on the Codrilla project
Carbon and environment	Creation of Carbon Committee
	Preparation, approval and release of company's Climate Change Policy
	Development of carbon action plan
	Appointment of an in-house environmental co-ordinator

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Part of our fleet of haul trucks at Coppabella Mine.

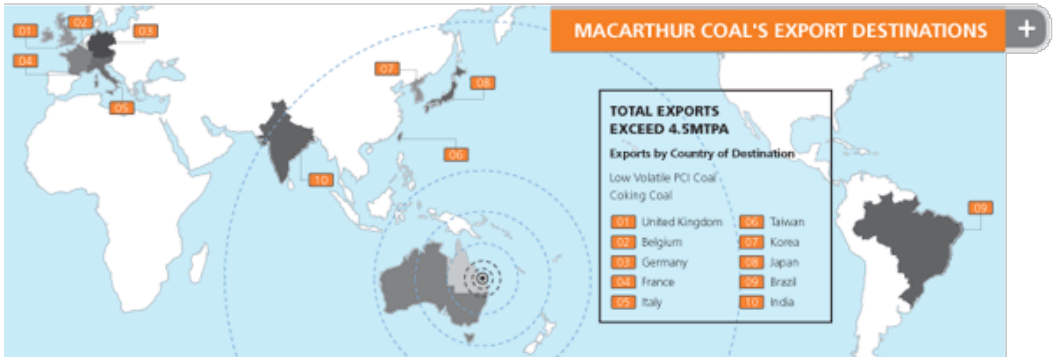
Our Profile

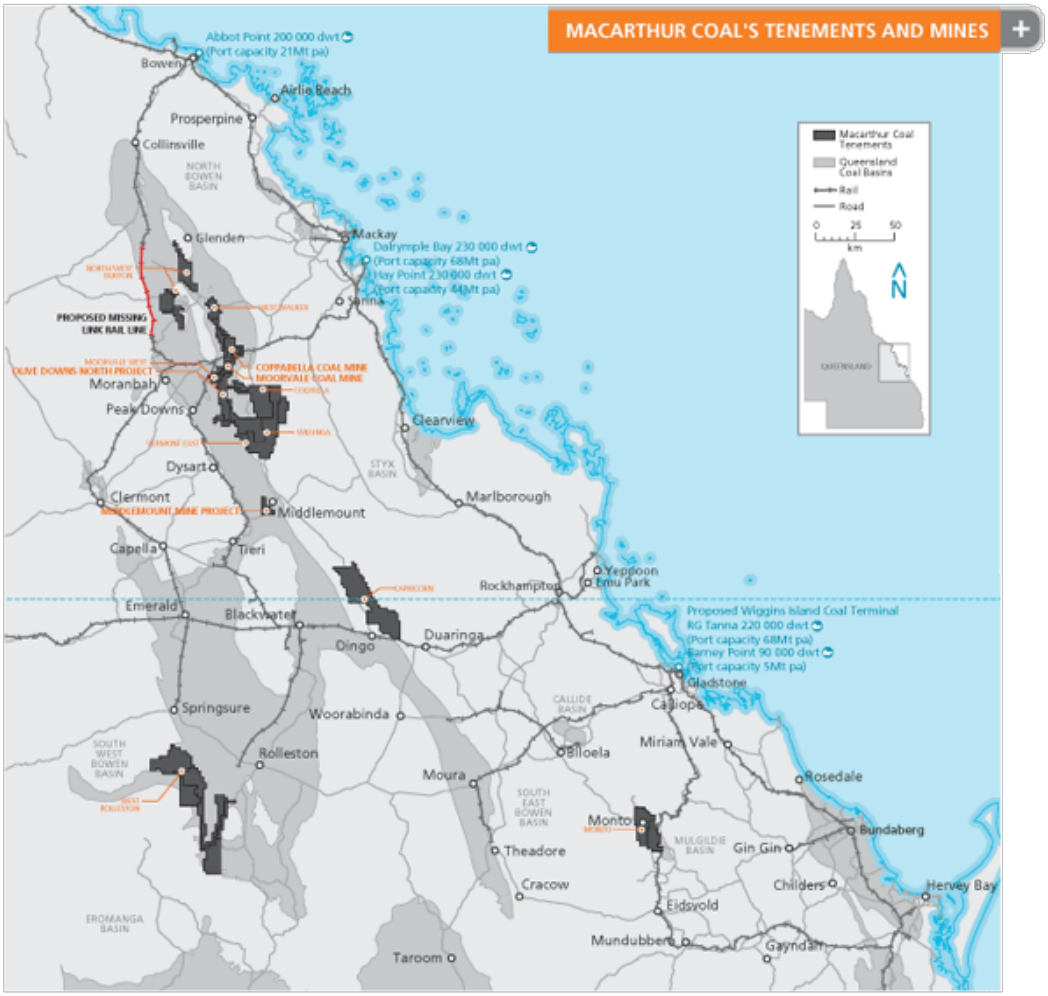
Macarthur Coal Limited and its controlled entities (Macarthur Coal) are involved in exploration, project development, coal sales and marketing, and coal mine management and operation in central Queensland. Coal mines operated and tenements owned are listed on the assets page.

- Macarthur Coal Limited (the company) is a public company that listed on the Australian Stock Exchange (ASX) in July 2001. The ASX code is MCC.
- Macarthur Coal is Queensland-based with its mining assets situated in Queensland's Bowen Basin and its corporate office located in Brisbane.
- Macarthur Coal's principal product is low volatile pulverised coal injection coal (LV PCI) for use in the production of steel.
- Macarthur Coal is a major supplier of LV PCI coal to the steel mills of Asia, Europe and Brazil and also produces some thermal and coking coal.
- Macarthur Coal's major assets are a 73.3% share in Coppabella Mine and Moorvale Mine through the Coppabella & Moorvale Joint Venture (CMJV) (which together provide approximately one third of the total volume of LV PCI coal exported from Australia) and a 74.66% share of the Middlemount Mine project.
- Macarthur Coal has large prospective exploration tenement holdings which provide a project portfolio for the development of new coal mines.
- Macarthur Coal's mines and exploration tenements (excepting the Middlemount Mine project) are held within unincorporated joint ventures, a structure which has allowed the company to gain significant strategic benefits by involving other parties in its projects. Our production joint venture participants are: CITIC Resources Australia Pty Ltd, Marubeni Corporation, Sojitz Corporation, JFE Shoji Trade Corporation, and NS Trading Co Ltd.
- The Middlemount Mine project is an incorporated joint venture with Paway Ltd (part of the Noble Group Ltd). Paway holds the remaining 25.34% of the Middlemount project.
- Macarthur Coal employs over 295 people directly and over 100 people through contractors.
- Macarthur Coal provides the expertise to manage the mines and exploration program on behalf of the joint venture participants. Macarthur Coal carries out all mining operations at Coppabella Mine. Contractors are engaged to undertake mining operations at Moorvale Mine and Middlemount bulk

sample operations.

- All the production at Coppabella and Moorvale mines is under Macarthur Coal's management and the company is entitled to 73.3% of the coal produced at the two mines. All sales and production statistics in this Annual Report represent Macarthur Coal's 73.3% attributable share unless otherwise stated.





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Ian Fredericksen, Safety and Training Advisor, observes the CHPP in action at Moorvale Mine.

Macarthur Coal's Assets

MACARTHUR COAL'S MINING AND EXPLORATION ASSETS

Asset	Interest Held in Asset	Subsidiary Company Holding Asset	Joint Venture and Manager
Coppabella Mine	73.3%	Coppabella Coal Pty Ltd	Coppabella & Moorvale Joint Venture managed by Macarthur Coal (C&M Management) Pty Ltd (MCCM)
Moorvale Mine	73.3%	Coppabella Coal Pty Ltd	Coppabella & Moorvale Joint Venture managed by Macarthur Coal (C&M Management) Pty Ltd
Olive Downs North	73.3%	Coppabella Coal Pty Ltd	Coppabella & Moorvale Joint Venture managed by Macarthur Coal (C&M Management) Pty Ltd
Monto	41%	Monto Coal 2 Pty Ltd	Monto Coal Joint Venture managed by Monto Coal Pty Ltd
Amaroo	85%	BB Interests Pty Ltd	Bowen Basin Coal Joint Venture managed by BB Interests Pty Ltd
Codrilla	85%	BB Interests Pty Ltd	Bowen Basin Coal Joint Venture managed by BB Interests Pty Ltd
Vermont East	85%	BB Interests Pty Ltd	Bowen Basin Coal Joint Venture managed by BB Interests Pty Ltd
Wilunga	85%	BB Interests Pty Ltd	Bowen Basin Coal Joint Venture managed by BB Interests Pty Ltd
Capricorn	85%	Capricorn Coal Pty Ltd	Capricorn Joint Venture managed by Capricorn Coal Pty Ltd
Middlemount	74.66%	Ribfield Pty Ltd (95%) Middlemount Coal Pty Ltd (5%) (both owned 74.66% Macarthur Coal and 25.34% Noble Group Ltd)	Middlemount Coal Pty Ltd
Moorvale West	90%	Moorvale West Coal Pty Ltd	Moorvale West Joint Venture managed by Moorvale West Coal

			Pty Ltd
Olive Downs South	90%	Olive Downs Coal Pty Ltd	Olive Downs South Joint Venture (formerly Olive Downs Joint Venture) managed by Olive Downs Coal Pty Ltd
West/North Burton	65%	West Burton Coal Pty Ltd	West/North Burton Joint Venture managed by West Burton Coal Pty Ltd
West Walker	85%	West Walker Coal Pty Ltd	West Walker Joint Venture managed by West Walker Coal Pty Ltd
West Rolleston	90%	West Rolleston Coal Pty Ltd	West Rolleston Joint Venture managed by West Rolleston Coal Pty Ltd

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Michelle Osborne, Trainer and Assessor, with the training simulator at Coppabella Mine.

Our Top Five Priorities for 2009

THE YEAR AHEAD

Macarthur Coal has a clear strategic direction which will take the company forward and allow us to grow and be successful into the future.

To ensure that we remain focused we have developed the following Vision and Mission.

Vision

To be the leading independent Australian coal company.

Mission

To grow total shareholder value by:

- Optimising operations and managing risk
- Identifying and developing competitive assets
- Responding quickly to cost-effective opportunities to expand production and markets
- Forging long-term, mutually-rewarding relationships with customers, suppliers, regulators, employees, the community and shareholders.
- In line with this Vision and Mission, we have created the following Top Five Priorities for the 2009 financial year which will enable us to ensure that the most efficient use is made of all our resources to maximise shareholder value and achieve our goals.

TOP FIVE FOR 2009 FINANCIAL YEAR

	Objective	Measures	2009 Target
Safety and People	We recognise that keeping our workforce safe is a process of continued focus and constant improvement and we are committed to improving our safety performance at all our worksites.		

	Safety – keep our people safe	All Injury Frequency Rate (AIFR)	Less than industry average of 22
	People – ensure our people are trained, developed and retained	Staff turnover (%)	Annual reduction in employee turnover
	Culture – ensure our employees are satisfied at work	Culture Audit (completion and participation)	Baseline culture audit completed 31 Dec 2008
		Develop culture	Two Working Together programs held by 30 June 2009
Operational Excellence	As we make the transition to owner operator across both Coppabella and Moorvale, we strive for operational excellence and set clear targets to achieve this goal.		
	Production and Operational Targets – achieve targeted production and sale requirements	Tonnes mined	5.0Mt (ROM)
		Coal Sold	5.0Mt
		Non-moisture penalties minimised	Maintain a minimal penalty rate
Cost Focus	We aim to ensure that we seek out innovative and efficient methods to keep our costs as low as possible to ensure maximum wealth for our shareholders.		
	System to capture costs – ensure all systems capture costs with timely reports	Fully-functional, timely cost reporting system in place for Coppabella and Moorvale	30 June 2009
Production Growth	A major goal is to grow our production in line with our increased port capacity and we aim to investigate and develop projects in our large project portfolio to meet this goal.		
	Tenement portfolio – advance projects in tenement portfolio	Status and quantity of Resources and Reserves improved	Resources and Reserves increased by 15% by 30 June 2009
	Middlemount – ensure development of Middlemount Mine project	Sale of coal from bulk sample pit	March 2009
		Mining lease granted and operations commenced	30 September 2009
Carbon and Environment	At Macarthur Coal we are conscious of our impact on the environment and strive to adopt and improve measures to ensure our activities have the least possible environmental impact.		
	Carbon Action Plan – ensure all milestones in action plan are met	All milestones met on time and within budget forecast	30 June 2009
	Environmental Management – manage our environmental obligations	Major environmental non-conformance	Nil

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Keith De Lacy, Chairman

Chairman's Report

Shareholders

2008 has been another year of change, challenge and growth for Macarthur Coal.

Meeting challenges

The company faced some major challenges throughout 2008. In March 2008, rumours began to circulate in the market and the media that Macarthur Coal was being investigated by a third party with the possibility of a takeover bid being made for the company. Although the Board was able to confirm that talks were progressing, the third party withdrew when ArcelorMittal, the world's largest steelmaker and longtime customer of Macarthur Coal, purchased a 14.9% stake in the company from Talbot Group Holdings Pty Ltd (TGH) and Tinkler Investments Pty Ltd.

The focus then shifted to whether ArcelorMittal would make a bid for the company. During this time, the Board was committed to ensuring that all shareholders were treated equally. Ultimately, no offer was forthcoming for the company. ArcelorMittal increased its shareholding to 19.9% and Korean steelmaker, POSCO, became a 10% shareholder, both by purchasing further shares from TGH.

With those potential takeover activities now behind us we can continue to focus on our core business of mining coal and building wealth for our shareholders.

Infrastructure constraints

Ongoing infrastructure constraints in the Goonyella coal chain continued to limit Macarthur Coal's sales. Although the first stage of the upgrade to Dalrymple Bay Coal Terminal (DBCT) was completed in March 2008, the terminal's overall performance was still well below optimum capacity.

Macarthur Coal alleviated these infrastructure constraints, to a degree, by shipping almost one million tonnes through the Abbot Point Coal Terminal but we look forward to improved sales performance through completion of upgrades to DBCT and the Goonyella corridor.

In its June 2008 budget, the State Government announced that coal companies would pay increased royalties in the future. In view of the lack of performance in the provision of infrastructure, which ultimately is the responsibility of the State Government, this opportunistic grab for additional revenue, with no consultation, is greatly resented by the entire coal industry.

Delivering results

Macarthur Coal recorded a NPAT of $72.7 million, which is 9.3% higher than the NPAT in the 2007

financial year. Given the challenges we faced from infrastructure bottlenecks and the extreme rain events, the NPAT of $72.7 million is a solid result with substantially increased coal prices expected to boost profits further next year.

Our share price continued to outperform the S&P/ASX 200 index by an impressive 149.2% over the financial year, making it the sixth best performing Australian company.

Making changes

Two of our founding Board members, Ken Talbot and Don Nissen, resigned during the potential takeover activity in June 2008. I would like to thank both Don and Ken for their many years of dedicated service to the company which has been instrumental in helping to make the company the enormous success it is today.

However, with these resignations comes the opportunity for us to strengthen the Board and increase its independence, and this will be our focus in the early part of the 2009 financial year.

Strengthening relationships

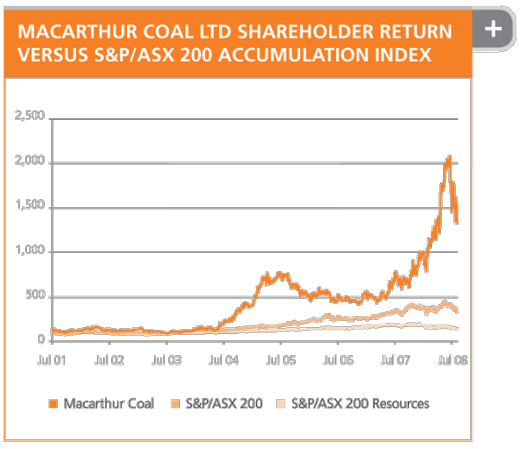
As mentioned, two of our long-term customers, ArcelorMittal and POSCO acquired major shareholdings in Macarthur Coal. With CITIC, which owns 20.39%, we now have three cornerstone shareholders in the company. This is a strong signal of support from our steel customers for Macarthur Coal as an independent coal company.

Building our future

In summary, 2008 has not been the smoothest ride for us at Macarthur Coal but I am proud of the way that we have buckled down as a team and ensured that business has continued as usual. I would particularly like to thank our CEO and MD, Nicole Hollows, for her leadership and hard work throughout the year, and all Macarthur Coal employees, for their sustained dedication to the company.

With the increased production capacity coming online in the next couple of years through the Middlemount Mine project and other prospective projects, our increased port allocation, and the rising coal price, the future for Macarthur Coal looks very bright.

Keith De Lacy



This graph shows Macarthur Coal's shareholder return as compared to the S&P/ASX 200 Accumulation Index. From listing in July 2001, it can be seen that, until the middle of the 2004 financial year, the company performed largely in line with the broader industry as coal prices remained low and the company consolidated its position in the market.

In the 2005 financial year, the company enjoyed significantly better performance compared to the index due to higher coal prices and high sales.

The sharp rise towards the end of the current financial year can be attributed to the high coal price following the flooding in Queensland's Bowen Basin and increased corporate activity around Macarthur Coal's shares.

However, overall, the graph shows that Macarthur Coal has consistently outperformed the S&P/ASX 200 Accumulation Index and represents a company that provides good returns to shareholders.

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Nicole Hollows, CEO

CEO's Report

Shareholders

In 2008, Macarthur Coal's NPAT was $72.7 million, up 9.3% on last financial year, our second highest since listing. This is a positive result given the challenges we faced during the year. As I reflect on the past 12 months, I can definitely say it has been a year of two distinct halves.

Infrastructure bottlenecks and wet weather limit sales

The first half of the year saw substantial infrastructure challenges during the construction phase at DBCT which limited our production and coal sales. The infrastructure constraints reduced our ability to ship coal which led to full stockpiles and forced us to reduce our installed production capacity with our contractors removing equipment at both Coppabella and Moorvale mines.

The second half saw severe flooding at our Coppabella and Moorvale mines and the Middlemount Mine project due to the rainfall from December 2007 to February 2008. As a result of these floods, which impacted most of central Queensland, in January 2008 we declared force majeure on our coal sales contracts. Significant efforts were made to install pumps and revise mine planning. The effort has paid off as most of the water has now been pumped out of the pits at Coppabella and normal mining activity recommenced at Moorvale in May 2008. We were able to lift force majeure on 20 August 2008. However, we are still feeling the effects of the floods and we are unlikely to achieve full production at Coppabella until January 2009.

Despite these challenges we have been able to achieve a solid profit and implement our growth strategy through:

- the acquisition of the Middlemount Mine project, adding to our strong project portfolio
- continued and focussed progression to develop our large tenement position in the highly prospective Bowen Basin, and
- our growth in port allocation over the next five years.

Safety is a vital component of our organisational culture

We want our people to be safe at work and we have worked hard this year to instil in our employees the highest regard for personal and workplace safety. We have adopted a behavioural approach to safety and safety training that involves all levels of our company to ensure that safety becomes an intrinsic part of everyone's job.

Moorvale Mine continued its exemplary safety record with another LTI free year and Sedgman Ltd, which operates the CHPP (at both Moorvale and Coppabella Mines), achieved the remarkable milestone of seven years LTI free at Coppabella. This is an excellent achievement and they are to be congratulated. Operations at Coppabella achieved 100 days LTI free in July and a 31% reduction in the LTIFR on a rolling 12 month basis to 30 June 2008.

Transitioning to owner operator cost effectively

The transition to owner operator at Coppabella progressed in May 2008 when we took over operation of the Marion 8200 dragline and we now undertake all mining operations at the mine. As part of the successful transition, we announced in December that Macarthur Coal and Downer EDI Mining had agreed to a settlement of a long-standing contractual dispute. The specific details of the settlement remain confidential.

With the learnings of the transition to owner operator at the forefront, we have made the decision to transition to owner operator at our Moorvale Mine. We have ordered mining equipment worth in excess of $110 million which will be commissioned progressively over the next 12 to 18 months. Leighton Contractors will continue to undertake mining operations at Moorvale until we take over operations and will then commence the box-cut at our Olive Downs North project.

Our focus in 2009 will be on developing our company culture and ensuring that we have the right systems and processes in place to achieve our objective of operational excellence at both Coppabella and Moorvale mines.

There is no doubt that mining costs are under pressure with significant increases in the costs of tyres, fuel, explosives and labour experienced throughout the industry during the year. We will continue to focus on cost management during the year and we have improved the efficiency of shared services between Coppabella and Moorvale mines.

This graph shows the steady increase in Macarthur Coal's total FOB costs (excluding purchased coal) over the past four years due to industry-wide costs, demurrage, and increased royalties as well as minesite costs such as water charges, fuel, tyres, labour and explosives.

Growing production

In January 2008 we completed the acquisition of Custom Mining Limited and an interest in the Middlemount Mine project (currently we own 74.66% of the Middlemount Mine project). This was an important acquisition and complements our existing tenement portfolio. Mining of overburden from the bulk sample pit at Middlemount commenced in December 2007 and coal mining of the bulk sample is expected in October 2008 to enable trial shipments to customers. We expect that mining operations of up to 1.8Mtpa ROM coal will commence in late 2009. We have also progressed our Olive Downs North Open-cut project and, subject to the grant of the mining leases, we expect mining operations to commence in late 2009. These projects will provide the flexibility to produce coking coal and help diversify our product base.

To fill our increasing port capacity at both DBCT and Abbot Point, the company also has an extensive project portfolio with several options for moving forward.

In addition, in April 2008, Macarthur Coal signed a memorandum of understanding with Hyundai Steel, Korea's second largest steel producer, and a sales contract with Dragon Steel Corporation for the supply of LV PCI coal in the future. We welcome Hyundai Steel and Dragon Steel as new customers and look forward to mutually beneficial relationships over the coming years.

Managing our impact on the environment

Macarthur Coal has always tried to operate in a manner which has the least impact on our environment.

In 2007 we created a Carbon Committee to monitor and advise on issues regarding climate change and other environmental issues. In June 2008 the Carbon Committee released the company's Climate Change Policy (see page 54). Going forward, the role of the Carbon Committee is to ensure that adequate resources and systems are available to meet regulatory requirements and to manage the impact of carbon trading on our business.

Given the weather events, rehabilitation activities at both mines have been deferred and will be undertaken in the 2009 financial year.

Going forward

In closing, I would like to thank our Chairman, Keith De Lacy and the members of the Board for their commitment, dedication and expertise in assisting me to guide the company through this eventful year. I would also like to thank Macarthur Coal's employees for their hard work during what has been a difficult and challenging year, but also a year of accomplishment and achievement. This would not have happened without our dedicated and committed people.

I look forward to the future where we will concentrate on making Coppabella an excellent operating asset, take over the operation of Moorvale and develop our portfolio of tenements. We will strive to do this safely, conscious of our environmental footprint and responsibilities, and while ensuring our people are happy and productive at work.

Nicole Hollows

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A grader works at Coppabella Mine

Our Operational Performance

OVERVIEW

DEMAND FOR COAL CONTINUES TO GROW

A strong year of growth in world steel production has seen solid growth in demand for metallurgical coal including both coking and LV PCI coal. The demand for steel is expected to continue to grow strongly (see here for more information).

INCREASED SALES REVENUE

- Sales revenue for the 2008 financial year was $400.2 million up by 10.3% compared to the 2007 financial year
- Increased revenue was due largely to higher coal prices in the last quarter of the 2008 financial year and to the net gain on sale of a 19.61% interest in Monto Coal 2 Pty Ltd.

MAJOR PROJECTS

- Progression of transition to owner operator status at Coppabella Mine with all mining operations undertaken by Macarthur Coal from May 2008 and employment of over 90 new Macarthur Coal employees. Focus will now be on culture development and ensuring efficiency of systems and processes
- Acquisition of Custom Mining Limited in January 2008. Custom Mining's interests include a 74.66% share in the Middlemount Mine project and farm-in rights for up to 70% of the Dingo West prospect
- Progression of the Olive Downs North Open-cut Project
- Sell-down of 10% of Macarthur Coal's 51% interest in the Monto Project (via sale of shares in Monto Coal 2 Pty Ltd) to Noble Group Ltd for consideration of $48.5 million in April 2008
- Commissioning of P&H 4100 electric rope shovel and associated truck fleet at Coppabella Mine in January 2008
- Ordering mining equipment valued at over $110 million for Moorvale Mine. The equipment will allow the company to move towards owner operator status in the next 12 to 18 months
- Signing of agreement with RAS (Moorvale Station) Pty Ltd to build an accommodation village for our people near Moorvale Mine and commencement of construction

- Granting of mining lease over the Pit F area at Moorvale Mine in November 2007 providing more dump room and an extension to the mining area for the future.

EXPLORATION ACTIVITIES

- Exploration activities during the year were negatively impacted by long periods of wet weather from December 2007 through to February 2008
- Exploration activities were primarily directed at advancing the Codrilla, Vermont East and Dingo West projects. The Coppabella and Moorvale underground projects were also progressed
- Exploration expenditure for the 2008 financial year was $8.5 million
- For more information on our exploration activities see here.

Sales

Macarthur Coal's Share	2008 000 tonnes	2007 000 tonnes	Variance %
Coppabella Mine (excluding sale of purchased coal)	2,064.3	2,748.0	(24.9)
Moorvale Mine (excluding sale of purchased coal)	1,613.9	1,046.6	54.2
Total	3,678.2	3,794.6	(3.1)

Production

Macarthur Coal's Share		2008 000s	2007 000s	Variance %
Overburden removed				
Coppabella Mine	bcms	27,409.0	34,422.7	(20.4)
Moorvale Mine	bcms	13,425.1	11,173.0	20.2
Total	bcms	40,834.1	45,595.7	(10.4)
Run of mine coal production				
Coppabella Mine	tonnes	2,169.3	3,714.8	(41.6)
Moorvale Mine	tonnes	1,937.8	1,684.0	15.1
Total	tonnes	4,107.1	5,398.8	(23.9)
Saleable coal production				
Coppabella Mine	tonnes	1,988.5	2,559.4	(22.3)
Moorvale Mine	tonnes	1,542.8	1,075.5	43.5
Total	tonnes	3,531.3	3,634.9	(2.8)

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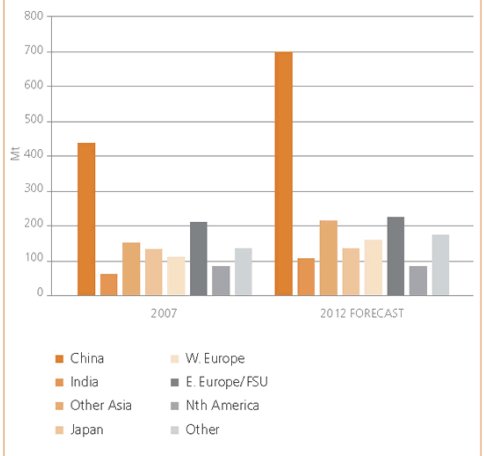
Michele Runnegar, Marketing Officer - Logistics. Michele's role includes planning and scheduling shipments to coincide with ship arrivals at port for loading, often up to three months in advance.

Status of the International Coal Market

Growth in World Crude Steel Production Increases Demand for Coal

The demand for metallurgical coal remained strong through 2008 and the steel market remained buoyant. According to the International Iron and Steel Institute (ISSB) world crude steel output increased 7.5% in the 2007 calendar year. This was the fifth consecutive year that world crude steel production grew by more than 7%. There has been a slight slow down during 2008 but the steel market remains strong (ISSB, http://www.worldsteel.org) and growth rates remain above historical averages.

FORECAST STEEL DEMAND



Source: Macquarie Research. This graph illustrates forecast world steel demand over the next five years. As can be seen, demand is predicted to increase by 500Mt with significant growth in Asia, one of Macarthur Coal's primary target markets for its planned increased production.

In the second half of the 2008 financial year, the strong demand growth for coal, coupled with ongoing infrastructure limitations as well as near-term shortages due to flooding in Queensland, led to an increasingly tight market for almost all metallurgical coal types. LV PCI coals enjoyed strong demand as steel producers endeavoured to increase PCI injection rates in response to massive increases in seaborne

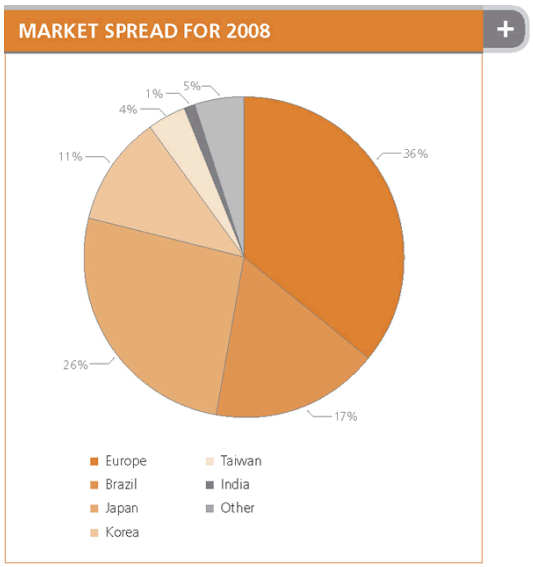
coke prices due to severe shortages in supply of coking coal and coke.

Major sales activities

Sales of 3.9Mt (including purchased coal) were achieved during the 2008 financial year. This was lower than last year due to ongoing infrastructure constraints in the Goonyella corridor and flooding of the mines early in 2008, particularly at Coppabella Mine.

Marketing achievements during the year were as follows:

- Strong and diverse international customer base maintained which includes most of the world's top steel producers
- Contract executed for supply to Dragon Steel Corporation, a company constructing a new integrated steel plant in Taiwan
- A memorandum of understanding signed with Hyundai Steel, a company constructing a new integrated steel plant in the Republic of Korea
- Further progress in developing markets in India achieved
- Infrastructure capacity enhanced by continuing to ship coal through Abbot Point Coal Terminal
- Increased thermal coal sales from stockpiles to cover production shortfalls at Coppabella Mine due to flooding in early 2008.



Macarthur Coal's market spread for the 2008 financial year shows a diversified market mix which focuses on developing the growing markets of Asia, Brazil and India.

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A coal train loading at Coppabella.

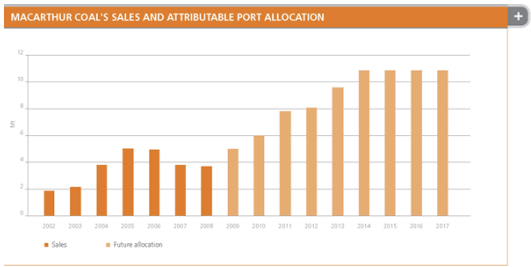
The Infrastructure Challenge

Port and rail constraints continued to impact shipping

Macarthur Coal's sales for 2008 were substantially impacted by continuing port and rail constraints in the Goonyella coal chain.

In the second half of the 2007 calendar year, construction of expansion works at DBCT severely impacted coal chain capacity. This resulted in extensive vessel queues and loading delays. Efforts by the port operator to reduce the length of the vessel queue resulted in substantial cutbacks to users' port entitlements over the 2008 financial year. Shipments in August 2007, for example, were the lowest on a monthly basis for three years. As a direct result of the vessel queues, Macarthur Coal's demurrage costs averaged approximately A$4 per tonne throughout the year.

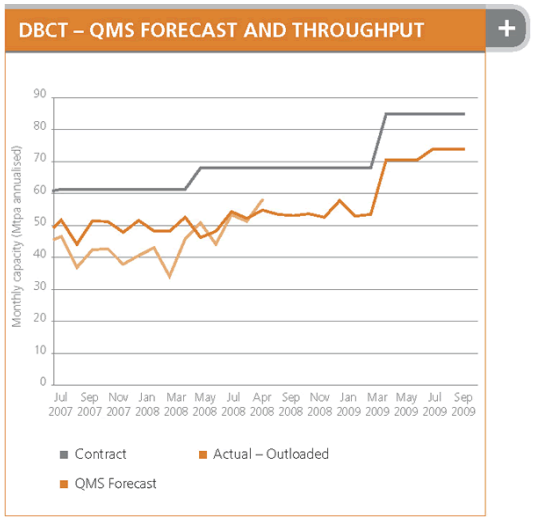
Despite the first phase of the DBCT expansion to 68Mtpabeing completed in March 2008, the overall performance of the Goonyella coal chain has been considerably less than forecast. The first phase of the expansion has raised Macarthur Coal's current contract allocation to 5.13Mtpa. Following the completion of Phases 2 and 3 of the expansion, the company's total allocation is 8.8Mtpa on a 100% basis, with allocation increasing progressively over a number of years (see graph below). Macarthur Coal's attributable sales are lower than port allocation given its equity share of projects being developed.



This chart shows the impact of the infrastructure constraints on Macarthur Coal's sales. However, once the upgrades to DBCT and Abbot Point are final and the Northern Missing Link completed, Macarthur Coal will have significant additional port capacity to match its planned growth in production.

Rail delivery to DBCT in 2008 was also considerably less than forecast contracted capacity which also reduced Macarthur Coal's sales. While new rolling stock has been ordered to meet the increased contracted capacity at DBCT, it is extremely difficult to determine Macarthur Coal's likely final port entitlement for the 2009 financial year. The Independent Expert's latest estimate for total tonnage at DBCT is 59.4Mtpa for the 2009 financial year which is significantly less than the contracted capacity of

68.0Mtpa.



As can be seen from this graph, the actual performance of capacity throughput (green line) was lower than the Queue Management System (QMS) forecast for much of the 2008 financial year and is now in line with forecasts.

During the first half of the financial year the infrastructure constraints severely reduced our ability to ship coal and as a result, stockpiles at both mines became full. This forced the company to reduce production by temporarily removing two excavators and associated truck fleets from Coppabella Mine operations and one excavator and truck fleet from Moorvale.

The severe rain events from December 2007 to February 2008 further impacted production but the company was able to maintain reasonable supply to customers through the large product coal stockpiles accumulated in the first half of the financial year.

Macarthur Coal continued to make shipments from the Abbot Point Coal Terminal from 1 July 2007 with more than one million tonnes being shipped through Abbot Point by 30 June 2008.

Northern Missing Link and Abbot Point expansion to go ahead

In order to reduce congestion in the Goonyella coal chain in the long term, Macarthur Coal is working closely with other coal producers and Queensland Rail (QR) to fast-track development of the Northern Missing Link rail project (a rail link which will connect the Goonyella rail system with the Newlands rail system) to enable coal produced in the Goonyella coal system to be exported via an expanded Abbot Point Coal Terminal.

It is expected that the development of the Northern Missing Link and Abbot Point Terminal expansion, beyond the current 25Mtpa expansion of the Abbot Point Terminal that is underway, will be staged over several years in increments of 25Mtpa:

- Stage 1 estimated to be completed by early 2011 (50Mtpa)
- Stage 2 to be completed by late 2012 (75Mtpa)
- Stage 3 by late 2014.

On 29 February 2008, Macarthur Coal executed a 3Mtpa take or pay contract with the Ports Corporation of Queensland for future export through Abbot Point Coal Terminal. This ten-year export allocation is due to commence in 2011 at a rate of 1.5Mtpa and ramp up progressively to 3Mtpa as the port and rail expansion is completed.

Port capacity requested at proposed Wiggins Island terminal

Macarthur Coal has lodged an expression of interest for port capacity at the proposed Wiggins Island Port Terminal at Gladstone and is working closely with other potential coal producers, Gladstone Port Corporation and QR through the feasibility stage of the project.

It is expected that the development will be staged over several years in increments of 25Mtpa:

- Stage 1 estimated to be completed by mid 2012 if construction commences by early 2009
- Stage 2 to be completed by mid 2015 (50Mtpa)
- Stage 3 by mid 2020 (75Mtpa).

Port capacity at Wiggins Island will support development of Macarthur Coal's southern prospects and projects including Monto, Capricorn, Middlemount and West Rolleston.

Water supply security achieved

Despite much of Queensland remaining in drought conditions, substantial rain fell in Central Queensland from December 2007 to February 2008. This included two separate one in a hundred year flood events in two months at the Coppabella and Moorvale mine sites. These events filled on-site storage to record levels providing more than 2,500Ml of on-site storage.

The $292 million Burdekin Pipeline was officially opened in August 2007 by the Hon Anna Bligh, the then Deputy Premier and Minister for Infrastructure. The 270km pipeline carries water to Moranbah from the Burdekin Falls Dam (Queensland's largest and most reliable water storage) and then to Macarthur Coal operations through the Eastern Spur Pipeline. The Burdekin Pipeline provides long-term water security and capacity for Macarthur Coal and other Bowen Basin coal producers for both existing and future operations.

All water used in coal production is recycled however a percentage is lost through evaporation. Throughout the year, the company implemented a number of other projects to reduce our risk of inadequate water supply, maximise water supply storage and minimise evaporation and usage onsite including:

- the construction of three water cells at Moorvale Mine to hold approximately 40Ml of water
- the deepening of the Coppabella raw water storage dam to reduce the effect of evaporation
- an audit and review of water consumption patterns and levels
- the construction of a new storage dam holding up to 500Ml at Moorvale.

All projects were completed by December 2007.

These initiatives, combined with the arrival of the Burdekin supply, provide security of water supply for ongoing operations at Coppabella and Moorvale and for future development of new projects.

Additional power supplied to Coppabella

In late 2007 an increased electricity supply from the Kemmis Creek substation to Coppabella Mine was established by Ergon. The new capacity provides additional supply to enable the operation of the P&H 4100 electric rope shovel which commenced operation in January 2008.

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A haul truck goes to pick up a load of coal from an excavator at Coppabella Mine.

Mines and Projects

- Coppabella Mine
- Moorvale Mine
- Middlemount Mine Project
- Olive Downs North Open-Cut Project

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Part of the landscape of Coppabella Mine.

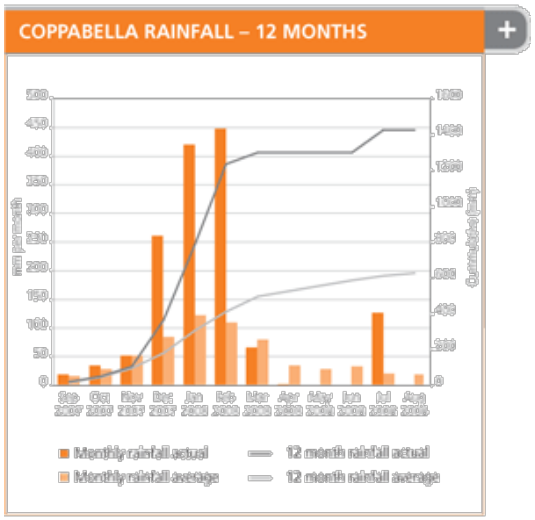
Coppabella Mine

% Ownership	73.3%
Tenements	ML 70161, ML 70163, ML 70164, ML 70236 and ML 70237
Location	140km south-west of Mackay near the townships of Nebo and Moranbah
Coal type	9% ash LV PCI coal
Manager	Macarthur Coal (C&M Management) Pty Ltd on behalf of the Coppabella & Moorvale Joint Venture
Mining operations	Mining operations are carried out by Macarthur Coal (C&M Management) Pty Ltd Coal handling and preparation is carried out by Sedgman Coppabella Joint Venture Mining and coal preparation activities are carried out 24 hours per day, seven days per week Blasting activities are carried out by Orica Limited
2008 attributable production target	2.90Mt
2008 attributable actual production	2.17Mt Production constrained by infrastructure bottlenecks and severe weather events
2009 attributable production target	3.00Mt
History	The first mining lease was granted on 1 June 1998 Development from a greenfields prospect to a coal producing mine was completed within a 14 month timeframe Overburden removal commenced in July 1998 First coal was mined in October 1998 Reached a cumulative total of 40Mt of run of mine (ROM) coal mined in April 2007

Coal is mined in the Johnson, South and East pits and blended to optimise coal quality and coal processing yield from a seam approximately 10 metres thick.

For the past year, attributable ROM production was 2.17Mt. This was 41.6% below the production results achieved in the previous year due to ongoing infrastructure constraints in the Goonyella coal chain which

forced a reduction in production during the first half of the financial year and severe rain events in which a total of 1,200mm of rain fell at Coppabella between early December 2007 and February 2008. This is four times more than the annual average rainfall for the mine. As a result of the rain, all onsite dams filled and a significant amount of water collected in the open-cut. The water in the pits was pumped out over several months and the mine returned to production, sufficient to fulfil our contract position in August 2008, although coal mining at the Johnson Pit strip recommenced in April 2008. No mining equipment owned by Macarthur Coal was damaged during the rainfall event however some of the haul and access roads required rehabilitation work. Macarthur Coal (C&M Management) Pty Ltd declared force majeure under the terms of its coal sales contracts on 25 January 2008 and this was not lifted until 20 August 2008.



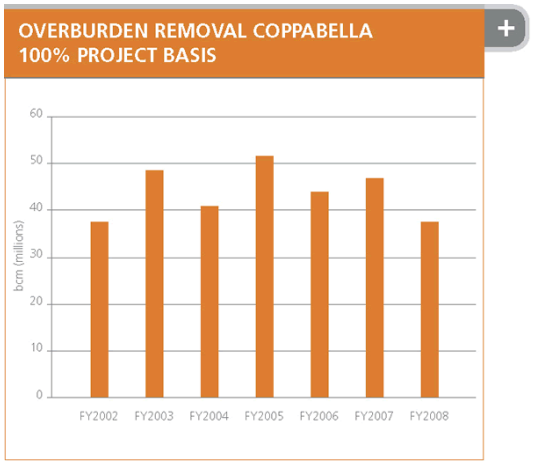
Figures for this graph were compiled by Macarthur Coal staff from data collected at the Mt Flora Weather Station, 12 kilometres from Coppabella Mine

In August 2007, Macarthur Coal agreed on a transition plan to owner operator with Downer EDI Mining. This, combined with infrastructure constraints restricting production, resulted in the early removal of two EX 5500 excavators and supporting trucks due to production surplus and rail infrastructure constraints.

In December 2007 Macarthur Coal (C&M) Management Pty Ltd and Downer EDI Mining announced that they had reached agreement to settle their long-standing dispute at Coppabella Mine. The specific terms of the settlement remain confidential.

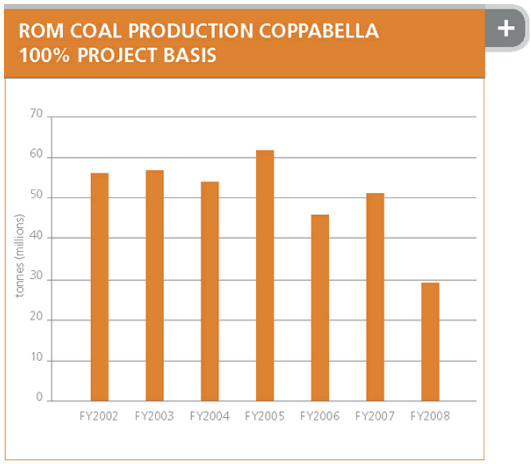
The new P&H 4100 electric rope shovel and Caterpillar 793 truck fleet were effectively rolled out on 19 December 2007 and the shovel was fully operational by the end of January 2008. The shovel achieved its one million bcm milestone in February 2008. Recruitment drives were held to select employees for the shovel and the dragline and we were successful in securing the new teams. Macarthur Coal took over the operation and ownership of the Marion 8200 dragline in May 2008 resulting in all mining operations at Coppabella now being carried out by the company.

In March 2008, Coppabella Mine was issued with two warning notices from the Environmental Protection Authority (EPA). The first was for releasing water from a sediment dam (which was not in compliance with the Environmental Authority (EA)). The second was for a contravention for failure to undertake water sampling in accordance with EA conditions. Consequently, Macarthur Coal was issued with one $1,500 fine. The water management plan has been reviewed and water management is a key focus going forward.

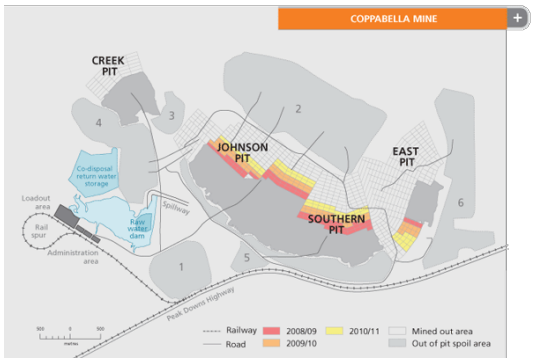


The consistent strip ratio at Coppabella Mine leads to relatively small fluctuation in overburden

removal rates. However, infrastructure constraints since the 2006 financial year have caused the rate to decline in line with production.



This chart shows similar effects in ROM coal production as in overburden removal. From the 2006 financial year, ROM coal production has been negatively impacted by infrastructure constraints and, in the 2008 financial year, was further impacted by the severe rain events.



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The construction of new water storage capacity at Moorvale Mine has helped ensure water supply for operations.

Moorvale Mine

% Ownership	73.3%
Tenements	ML 70290, ML 70291 and ML 70319
Location	156km south-west of Mackay near the townships of Nebo and Moranbah
Coal types	9% ash LV PCI coal 13% to 17% ash thermal coal 8.0% ash coking coal
Manager	Macarthur Coal (C&M Management) Pty Ltd on behalf of the Coppabella & Moorvale Joint Venture
Mining operations	Mining operations are carried out by Leighton Contractors Pty Ltd Coal handling, preparation and train loading are carried out by Sedgman Ltd Mining and coal preparation activities are carried out 24 hours per day, seven days per week Blasting activities are carried out by Orica Limited
2008 attributable production target	1.60Mt
2008 attributable actual production	1.94Mt Production slightly constrained by infrastructure bottlenecks and severe weather events
2009 attributable production target	1.95Mt
History	The mining lease was granted on 5 December 2002 Development from a greenfields prospect to a coal producing mine was completed within a twelve month timeframe Overburden removal commenced in December 2002 First coal was mined in March 2003 Reached a cumulative total of 10Mt of ROM coal mined in April 2007

The mine has a coal seam with an average thickness of approximately nine metres. Mining occurs in three pits over a length of approximately three kilometres. A fourth pit, Pit F will commence mining in late 2008. The mining lease over the Pit F area was granted on 1 November 2007. The lease provides more dump room and an extension to the mining area for the future.

Attributable ROM production was 1.94Mt which was 15.1% more than the previous year. In the first half

of the financial year, infrastructure constraints impacted production due to full onsite stockpiles. One excavator and associated truck fleet were removed from the mine temporarily.

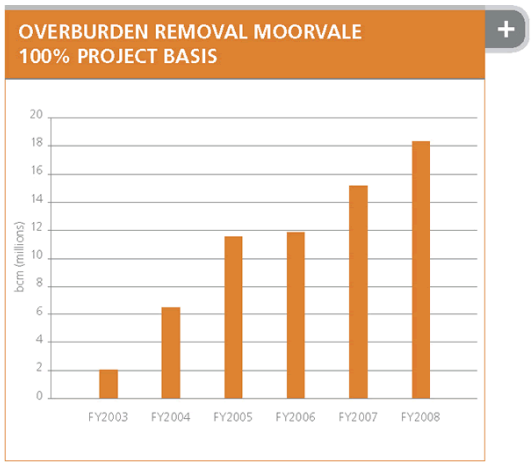
The severe rainfall event also affected Moorvale Mine but a smaller catchment area and different mining methods meant that not as much water collected in the pits as occurred at Coppabella Mine. Production was delayed when water entered the open-cut. Some onsite dam walls were breached but have since been repaired and the onsite water storages filled again. Production was negatively impacted but to a lesser extent than at Coppabella and mining activities returned to normal in May 2008.

Water storage capacity onsite was improved with the construction of a further 500Ml storage cell and three water cells holding approximately 40Ml which were filled during the rainfall event.

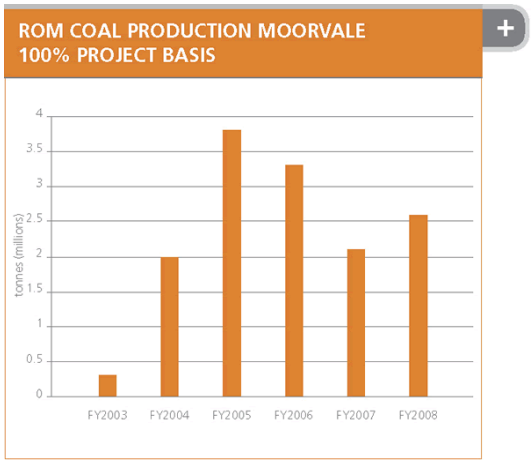
There was a minor geotechnical failure in the advancing highwall which slowed coal mining in one pit during the year. The mine plan was slightly altered to provide greater highwall stability.

An upgrade of the CHPP was completed early and within budget on 1 October 2007. The plant can now process at the ROM rate of 600 tonnes per hour which is a 33% increase on its previous throughput capacity of 450 tonnes per hour. The upgrade will enable the mine to increase production in line with the port allocation increase. In March 2008, the CHPP achieved the expanded capacity rate on an annualised basis.

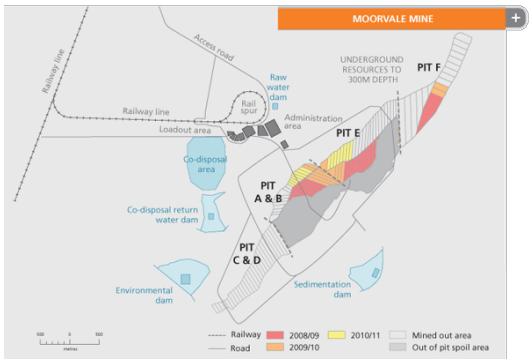
Over $110 million worth of equipment has been purchased for Moorvale Mine. It is planned to transition to owner operator at Moorvale by December 2009 with all mining operations being undertaken by the Manager. Sedgman Ltd will continue to operate the CHPP. As the transition to owner operator proceeds, the current Leighton Contractors workforce will move to commence the initial box-cut at the new Olive Downs North Project.



This chart shows the steadily increasing rate of overburden removal at Moorvale Mine which is consistent with the increase in the strip ratio at the mine and the increase in ROM coaling in the 2008 financial year. The strip ratio has increased from 3:1 to 5.5:1 from the 2006 financial year to the 2008 financial year.



ROM coal production at Moorvale reached a peak in the 2005 financial year before infrastructure constraints began to impact production and shipping. The severe rain event from December 2007 to February 2008 also impacted production in the 2008 financial year.



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The bulk sample pit at Middlemount.

Middlemount Mine Project

% Ownership	74.66%
Tenements	MDL282, MLA70379, EPC1225 Application
Location	Six kilometres south-west of the township of Middlemount in central Queensland
Coal type	PCI coal and semi-hard coking coal
Manager	The Middlemount Mine project is being developed by Middlemount Coal Pty Ltd, an incorporated joint venture between Macarthur Coal and Paway Ltd (part of Noble Group Ltd)
Mining operations	Mining operations are carried out by Leighton Contractors Pty Ltd A CHPP will be constructed by Sedgman Ltd following the granting of the mining lease Mining and coal preparation activities will be carried out 24 hours per day, seven days per week by contractors
2009 attributable production target	Sale of trial cargoes only from the bulk sample pit
History	Macarthur Coal completed the acquisition of Custom Mining Limited (including a 74.66% interest in the Middlemount Mine project) in January 2008 Bulk sample pit overburden removal commenced in December 2007 with first coal uncovered in May 2008 Coal mining in the bulk sample pit is expected to commence in October 2008 with coal transported to a nearby third party CHPP

On 15 January 2008, Macarthur Coal completed the acquisition of Custom Mining Limited. Custom Mining Limited's principal asset is its shareholding in the Middlemount Mine project, approximately six kilometres south-west of the township of Middlemount.

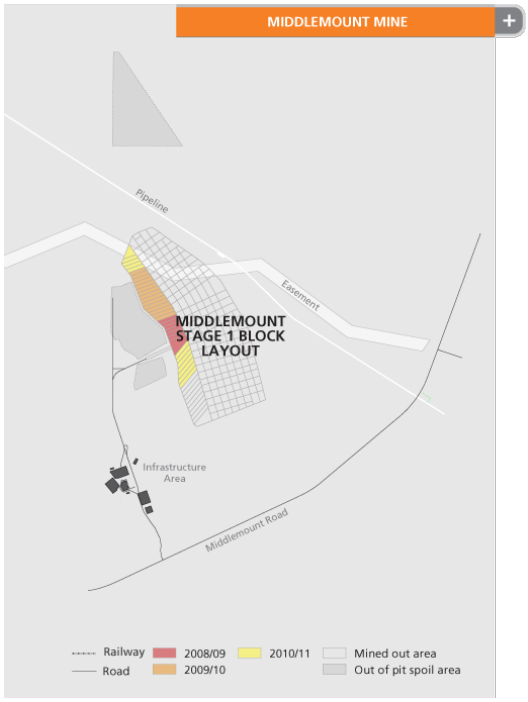
The Middlemount Mine project comprises Mineral Development Licence (MDL) 282 which is a 1,800 hectare tenement over the Rangal Coal Measures. The deposit contains 100.1Mt of JORC Resources of which 30.6Mt are at Measured Status. See here for our Resources and Reserves table.

Since acquisition of the project, Macarthur Coal has worked closely with Noble Group Ltd to seek to expedite development of the project. Under the provisions of the MDL, a bulk sample is being mined to enable a detailed assessment of coal quality and mining conditions. The bulk sample pit development was started by Leighton Contractors in early December 2007. The bulk sample pit is expected to yield

approximately 360,000 tonnes of Pisces seam ROM coal.

Significant rainfall in January and February 2008 hampered operations while water was pumped out of the pit. Operations were reduced from two to a single excavator fleet as a result of equipment damage caused by the rainfall event.

A Mining Lease Application (MLA) has been lodged over the deposit to enable the commencement of ongoing mining after completion of the bulk sample. Progress of the MLA has been delayed due to additional water management and flood studies that have been required due to the flooding in January 2008. Macarthur Coal is working closely with the EPA to complete these studies. It is anticipated that, subject to grant of the lease, ongoing mining of the deposit at a rate of up to 1.8Mtpa ROM coal will commence late in the 2009 calendar year. Following the granting of the lease, Sedgman Ltd will commence construction of a CHPP which is expected to take 9 to 12 months from commencement to commissioning. Until the CHPP is commissioned, ROM coal from the bulk sample pit will be trucked to a nearby third party CHPP for washing and shipment of trial cargos to customers via DBCT.



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The Olive Downs North project will be situated 15km south of Moorvale Mine.

Olive Downs North Open-cut Project

% Ownership	73.3% (balance held by other Coppabella & Moorvale Joint Venture participants)
Tenements	EPC 649 (north of the Isaac River), MLAs 70354 and 70355
Location	15km south of Moorvale Mine
Coal types	Coking coal and LV PCI coal
Manager	Macarthur Coal (C&M Management) Pty Ltd on behalf of the Coppabella & Moorvale Joint Venture
Mining operations	Once the ML is granted mining activities will be carried out by Leighton Contractors The coal will be prepared at the Moorvale CHPP operated by Sedgman Ltd
Mining commencement date	Following granting of the ML it is anticipated that mining will begin in late 2009
History	Exploration activities continued to further refine the current open cut resource Cultural Heritage clearances and environmental authorisations continued prior to a large diameter drilling program for coal quality and washability data collection and analysis Mining Lease Application processes are nearing completion with approval expected to be granted in early 2009 Mine planning is focusing on the integration of production with Moorvale operations to optimise potential coal blending opportunities

Approvals for the mine are progressing with the Land and Resources Tribunal recommending in July 2007 that the Minister for Mines and Energy grant the two mining leases required for the development to proceed.

Commencement of mining at Olive Downs North is to be coordinated with the expansion of the existing Moorvale operation. It is planned that as the transition is made to owner operator at the existing Moorvale operation, the current Leighton Contractors workforce will commence work on the initial box-cut at Olive Downs North.

The project will be operated as a satellite pit to Moorvale Mine at up to 1Mtpa ROM coal. The ROM coal will be prepared at the Moorvale CHPP and railed to DBCT for shipping.

Infill drilling has also outlined approximately five kilometres of additional strike length immediately north of the areas of the MLAs. Slimcore drilling and testing is underway to enable an upgraded JORC Resource

estimate for the project.

Both PCI and coking coal fractions can be produced from Olive Downs coal and this project will give the company the flexibility to produce coking coal and help to diversify its product base.

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Open-cut mine developments | Underground mine developments
Advancing our exploration Projects | Tenement management
Opportunities emerging from exploration | Resources and Reserves

With increased port allocation secured for the future Macarthur Coal plans to expand total production through the development of new mines. The company is upgrading the status of current Resources with the goal of developing [illegible] with market demand. The objective is to increase shareholder value through the improved market valuation of Macarthur Coal's project portfolio and through the discovery of new resources.

Macarthur Coal's exploration tenements (excepting the EPC 1225 Application at Middlemount) are held within unincorporated joint ventures, a structure which has allowed the company to gain significant strategic benefits by involving other parties in its projects. The Middlemount Mine project is an incorporated joint venture.

Thirteen potential projects are under investigation. Two of these involve the conceptual assessment of the potential for development of underground mines at Coppabella and Moorvale and another is concerned with the development of the Middlemount Mine project. The Olive Downs North and Codrilla resource areas (see below) are at an advanced development stage with the remaining eight areas at various levels of prospectivity and development.

Throughout the year we experienced significant delays in accessing drilling rigs and laboratory data due to the current skill shortages in the resources industry. Severe wet weather also hampered exploration activities throughout the year.

Exploration expenditure for the 2008 financial year was $8.5 million.

Open-cut mine developments

Codrilla

The Codrilla project is undergoing intense scrutiny for accelerated development and a concept mine study of the Codrilla deposit has been completed. This study reflects the potential for a mine producing up to 4.0Mtpa ROM coal and 3.2Mtpa product coal consisting of 80% LV PCI coal and 20% thermal coal. It is anticipated that there would be a stand-alone CHPP with the product hauled to Moorvale for train loading.

Infill drilling between Moorvale Mine and the Codrilla deposit has highlighted areas capable of providing additional Resources for the Codrilla project area. Work is being undertaken to increase this project's

development status with baseline environmental and economic feasibility studies to complete prior to the lodgement of a Mining Lease Application.

Underground mine developments

Moorvale

Further advancement of the Moorvale underground project was confirmed by the results of a second 3D seismic program. A prefeasibility study is well advanced with the results likely during the 2009 financial year. It is anticipated that a mining reserve will be determined for the area and that the current studies will advance to a full feasibility study over the next two years.

Coppabella

A preliminary 2D seismic program and stage one of an extensive coal quality drilling program were completed over the Coppabella underground project area. A 3D seismic study was planned however the wet weather has delayed the work. The 3D seismic study, along with further drilling, has been scheduled for the 2009 financial year. Following completion of the work, a conceptual mining study will commence.

Moorvale West

The bulk of the Moorvale West Resources were upgraded to Measured status following the completion of laboratory analyses. Resource confidence has been significantly enhanced by drilling, testing, geotechnical investigation and seismic data acquisition.

Advancing our exploration prospects

Vermont East / Wilunga

An extensive exploration drilling program interrupted by wet weather in the second and third quarters has been directed at extending the open-cut Resource potential of PCI coal within the Vermont East/Wilunga prospect. The western parts of Vermont East yield a coking coal fraction. This prospect provides potential for development of a significant area of Resource that runs approximately 45km in length from Olive Downs south to the Carfax area east of Dysart. Inferred Resources at Vermont East/Wilunga have been upgraded from 38Mt to 164.6Mt over the course of the past year (see table of Resources and Reserves on page 38).

West / North Burton

Exploration in the West Burton area continued with scout drilling aimed at potential shallow open-cut resources in the northwest. An additional tenement (EPC 1115) was granted in March 2008. The West/North Burton prospects have the potential to contain coking coal.

West Rolleston

2D seismic exploration within EPCs 871 and 896 has confirmed the lateral continuity of shallow, flat-lying coal seams which make up the thermal coal Resource discovered in EPC 786. Follow-up drilling is planned to confirm the nature of the seams and upgrade the Resource tonnage.

West Walker

Exploration drilling and 2D seismic within the West Walker project area have confirmed the lateral continuity of the thick PCI-grade coal seams extending north from the Coppabella mining leases.

Dingo West

Resource definition drilling commenced on the Dingo West area west of Rockhampton. Coal seams encountered are likely to be of a PCI-grade similar to those in the adjoining Capricorn tenement area. However, at the time of publication, the exploration program is at an early stage.

Tenement management

During the year a full-time Tenement Manager was employed and detailed procedures developed to manage the legislative and administrative requirements arising from exploration activities.

Opportunities emerging from exploration

Of the current exploration prospects, the following have had their Resources defined to JORC level:

- Coppabella underground
- Moorvale underground
- Moorvale West

- Olive Downs North
- Olive Downs South
- Codrilla
- West Rolleston
- Vermont East/Wilunga
- Monto

See here for a table specifying Resources and Reserves.

Work continues on defining the resources of the other four prospects which comprise:

- Capricorn
- West/North Burton
- West Walker
- Dingo West

Capricorn	
% Ownership	85%
Tenements	EPC 769
Location	North-east of the town of Dingo
Nearest Port	Gladstone Port
Coal Types	It is inferred from the coal type at Yarrabee Mine that the Capricorn prospect may be a source of semi-anthracite which can be used as a thermal coal and a PCI coal
Resource status	Unquantified coal occurrences have been outlined by 2D seismic, and over 50 company and non-company open holes over an elongated, structurally disturbed, segmented target area of 146km2. Coal occurs adjacent to the Blackwater to Gladstone rail line in the Aries, Castor and Pollux seams at depths that may prove suitable for both open-cut and/or underground extraction
Project status	A grassroots prospect
Activity undertaken in 2008	▪ Geological modelling ▪ Additional cultural heritage inspections prior to further drilling of defined target areas

Codrilla	
% Ownership	85%
Tenements	EPC 676
Location	35km south-east of Moorvale Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	LV PCI coal and thermal coal similar to that produced at Coppabella Mine
Resource status	A U shaped deposit in which drill defined JORC Coal Resources to 150 metres depth comprise: ▪ 41.5Mt of Measured Resource ▪ 17.9Mt of Indicated Resource These Coal Resources adjoin another 28km2 of exploration target area to 450m depth – outlined by 78 Macarthur Coal drill sites cored mostly up dip and 26.5km of seismic coverage by Macarthur Coal in which coal is known to occur in a 7m thick seam thought to be the Vermont Upper Seam. An additional 7km2 of open-cut resources have been drill defined alongstrike from the Codrilla deposit
Project status	A greenfield prospect. Detailed planning is under way. A feasibility study will be prepared over the next year
Activity undertaken in 2008	▪ A concept study based on a truck and shovel operation was completed with stand-a-lone CHPP ▪ Infill drilling to extend open-cut Resources to the west along strike between

	the Codrilla and Moorvale deposits

Moorvale Underground	
% Ownership	73.3%
Tenements	MLs 70290 and 70291
Location	Immediately downdip to west of Moorvale Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	LV PCI coal and coking coal
Project status	A brownfields prospect
Activity undertaken in 2008	▪ Stage 2 3D seismic investigations over the proposed underground ▪ Geological modelling, calculation of Resources to JORC Code and issue of Resource statements ▪ A prefeasibility study is in progress

Coppabella Underground	
% Ownership	73.3%%
Tenements	MLs 70164, 70236, 70384, 70385, 70386, 70387 and EPC 531
Location	Southwest of Mackay and next to Coppabella Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	LV PCI coal
Resource status	A significant Resource with underground mining potential exists beyond the limits of the current open-cut mine at Coppabella. Once a 3D seismic survey, drilling and analysis work are carried out, a prefeasibility study will examine the potential for establishing an underground mine
Project status	A brownfields prospect
Activity undertaken in 2008	▪ Geological modelling, 2D seismic and exploration drilling

Moorvale West	
% Ownership	90%
Tenements	EPC 680
Location	Eight kilometres west of Moorvale Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	LV PCI coal and coking coal
Resource status	JORC Coal Resources to a depth of 450m comprise: ▪ 100.3Mt Measured ▪ 31.6Mt Indicated ▪ 14.0Mt Inferred Of the total of 145.9Mt some 93.6Mt are less than 300m deep. The seams outcrop next to the Peak Downs rail line affording drift entry and access to some 3.2Mt of coal at less than 100m depth
Project status	A greenfields prospect – awaiting compilation of Moorvale and Coppabella underground prefeasibility studies before reviewing options for development
Activity undertaken in 2008	▪ Compilation of drilling, testing and geotechnical data ▪ Geological modelling, calculation of Resources to JORC Code and issue of Resource statements ▪ Conceptual mine planning

Olive Downs South	
% Ownership	90%
Tenements	EPC 649 (south of the Isaac River), part of EPCs 676, 721 and 850
Location	25km south of Moorvale Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	Coking coal, LV PCI coal and high energy thermal coal
Resource status	JORC Coal Resources to a depth of 450m comprise: ▪ 25.8Mt of Measured Resource of which 18.5Mt are at less than 100m depth ▪ 18.0Mt of Indicated Resource of which 6.1Mt are at less than 100m depth 228.3Mt of Inferred Resource of which 20.9Mt are at less than 100m depth
Prospect status	A grassroots prospect
Activity undertaken in 2008	▪ Olive Downs South geological modelling extended alongstrike to the south into Vermont East ▪ Extensive cultural heritage inspections, track and site access preparation for exploration drilling and 2D seismic

West/North Burton	
% Ownership	65%
Tenements	EPCs 682, 708, 1115 and 836
Location	50km north-west of Coppabella Mine, west and north of Burton Mine and east of North Goonyella Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	It is inferred from the coal types at the nearby Burton Mine and projects that the West/North Burton prospect may be a source of low to medium volatile coking coal, PCI coal and thermal coal in the Rangal Coal Measures
Resource status	2D seismic survey identified areas prospective for shallow coal and follow-up scout drilling is targeted at locating the Leichhardt and Vermont Seams at underground mineable depths
Project status	A grassroots prospect
Activity undertaken in 2008	▪ Exploration drilling to define potential shallow fault repeated crop zone evident from 2D seismic ▪ Environmental Authority (EA) amendments to enable access within Endangered Regional Ecosystem (ERE) buffer zones on EPC 836 ▪ Cultural Heritage inspections

Vermont East/Wilunga	
% Ownership	85%
Tenements	EPCs 850, 721 and 688
Location	40km south of Moorvale Mine
Nearest Port	Dalrymple Bay Coal Terminal
Coal Types	Initial results for Vermont East indicate the likely presence of a medium volatile coking coal fraction and confirm the presence of thermal coal and PCI coal, as inferred from the nearby Lake Vermont Project. LV PCI coal has been identified in the Wilunga area
Resource status	Vermont East adjoins the Wilunga prospect and contains a number of fault repeated crop zones of the Rangal Coal Measures. Wilunga is an S-shaped deposit and combined with Vermont East covers a target area of over 110 km2. To date an inferred JORC Resource of 164.6Mt has been established over the project area
Project status	A grassroots prospect currently under the exploration spotlight
Activity undertaken in 2008	▪ Detailed infill drilling, slimcores and testing in Vermont East, halted by wet season mid-December 2007 to February 2008

	■ Structure contour mapping and geological modelling in Vermont East ■ Ongoing Cultural Heritage inspections for 2D seismic and exploration drilling

West Walker	
% Ownership	85%
Tenements	EPCs 657, 666, 757 and 712
Location	Adjoining Coppabella Mine tenements to the north
Nearest Port	Dalrymple Bay Coal Terminal (via the adjacent Hail Creek rail spur)
Coal Types	LV PCI coal similar in quality to the LV PCI coal at Coppabella Mine
Resource status	An elongated target area of 36km2 immediately alongstrike from drill defined Resources at Coppabella Mine has been outlined by 47 Macarthur Coal and non-company open holes and 9km of non-company seismic coverage. Coal could occur in the 6m thick Leichhardt Seam at depths suitable for underground mining. Additional resources alongstrike into EPC 712 are likely
Project status	A grassroots prospect
Activity undertaken in 2008	■ Cultural heritage clearance for 2D seismic and follow up drilling ■ Exploration drilling and 2D seismic in EPC 712 ■ Coal quality drilling

West Rolleston	
% Ownership	90%
Tenements	EPCs 786, 781, 833, 856, 871 and 896
Location	40km south of Springsure in central Queensland and 25km west of Rolleston Mine
Nearest Port	Gladstone Port
Coal Types	Thermal coal for the domestic and export markets in four seams similar to those which occur at Rolleston Mine, 25km to the east
Resource status	Drill defined JORC Coal Resource estimates in EPC 786 to 100 metres comprise: ■ 43.6Mt Measured ■ 15.5Mt Indicated 21.0Mt Inferred
Project status	A grassroots prospect that has progressed to the preliminary mine planning stage for EPC 786. Lateral continuity of seams within EPC 786 identified alongstrike through 2D seismic in EPCs 871 and 896
Activity undertaken in 2008	■ Cultural Heritage clearances for 2D seismic and follow up drilling in EPCs 871 and 896 alongstrike from the resources in EPC 786 ■ 2D seismic acquisition in EPCs 871 and 896

Monto	
% Ownership	41%
Tenements	ML 80101 and EPCs 613 and 683
Location	120km south-west of Gladstone
Nearest Port	Gladstone Port
Coal Types	Thermal coal
Resource Status	JORC Coal Resources estimated in 2002 are defined in accordance with the JORC Code (1999 Version) and comprise: ■ 55.7Mt Measured ■

	66.0Mt Indicated ■ 397.0Mt Inferred
Project Status	A greenfield project. A review of the feasibility of the Stage 1 development of the mine is being undertaken
Activity undertaken in 2008	■ Further project evaluation was undertaken ■ Further exploration activity was negatively impacted by wet weather ■ JORC Coal Resources are being re-evaluated

Dingo West	
% Ownership	0% as at 30 June 2008 with farm-in rights for up to 70%
Tenements	EPC 881
Location	Immediately west of the township of Dingo
Nearest Port	Gladstone Port
Coal Types	It is inferred from the coal type at Yarrabee Mine that the Dingo West prospect may be a source of semi-anthracite which can be used as a thermal coal and a PCI coal
Resource Status	To be determined
Project Status	A grassroots prospect
Activity undertaken in 2008	■ 27 chipholes were drilled in regional exploration work ■ Five slim coreholes were completed for additional coal quality testwork

RESOURCES AND RESERVES

Note, only those projects that have had Resources and Reserves determined to JORC standard are included in this table.

RESOURCE AND RESERVE STATEMENT (100% Project Basis) as at 30 June 2008

	Resources (Mt)				Recoverable Coal Reserves (Mt)			Competent Person (Reference)
	Measured	Indicated	Inferred	Total	Proved Reserve	Probable Reserve	Total	
Coppabella Mine	66.7	123.3	17.0	207.0	45.8	21.2	67.0	1,2
Moorvale Mine	58.6	57.1	12.5	128.2	34.9	4.8	39.7	1,2
Middlemount	30.6	37.8	31.7	100.1				6
Moorvale West	100.3	31.6	14.0	145.9				3,4
Olive Downs Nth	30.6	16.1	78.0	124.7		12.5	12.5	3,4,5
Olive Downs Sth	25.8	18.0	228.3	272.1				3,4,5
Codrilla	41.5	17.9		59.4				3,4
West Rolleston	43.6	15.5	21.0	80.1				3,4
Vermont East/Wilunga			164.6	164.6				3,4
Monto	55.7	66.0	397.0	518.7				6
Total	453.4	383.3	964.1	1800.8	80.7	38.5	119.2	

All Resources, with the exception of those at Monto, comply with the JORC Code 2004. Monto was modelled in 2002 and Coal Resources currently comply with the 1999 edition of the JORC Code.

The information in this report that relates to Coal Reserves at Coppabella and Moorvale mines is based on information compiled by Mark Bryant, BE Mining (Hons), MAusIMM (1). Mark Bryant is a member of The Minserve Group Pty Ltd (ABN 43 010 995 767).

The information in this report that relates to Coal Resources at Coppabella and Moorvale mines is derived from geological modelling by Mal Blaik BSc App (Geol) (Hons), MAusIMM, (2). Mal Blaik is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596).

The information in this report that relates to Coal Resources at Moorvale West, Olive Downs, Codrilla, Vermont East/Wilunga and West Rolleston is derived in part from geological modelling by Greg Jones BSc (Hons) MAusIMM, MAIG (3) with information compiled by Lance Grimstone BSc (Hons) (Geol), Grad Dipl Mngt, FAus IMM, CPGeo, MMICA (4). Greg Jones is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596). Lance Grimstone is employed by Lance Grimstone & Associates (Consulting) Pty Ltd (ABN 23 114 977 829).

The information in this report that relates to Coal Reserves at Olive Downs is based on information compiled by Alwyn Hyde-Page, BE Mining (Hons), FAusIMM CP (5). Alwyn Hyde-Page is a member of The Minserve Group Pty Ltd (ABN 43 010 995 767).

The information in this report that relates to Coal Resources at Monto is derived from geological modelling by Greg Jones (3) undertaken in 2002. Monto is currently being remodelled with additional drillhole data.

The information in this report that relates to Coal Resources at Middlemount is based on information compiled by Carol Rolley, MSc, MAIG (6). Carol Rolley is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596).

Mark Bryant, Mal Blaik, Greg Jones, Lance Grimstone, Carol Rolley, and Alwyn Hyde-Page 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 and 2004 editions of the Australasian Code of Reporting of Mineral Resources and Ore Reserves.

Mark Bryant, Mal Blaik, Greg Jones, Lance Grimstone, Carol Rolley, and Alwyn Hyde-Page consent to the inclusion in the report of the matters based on the information in the form and context in which it appears.

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As Macarthur Coal's Communications Officer, Annette Fraser is responsible for managing many aspects of the company's community relations activities.

Corporate Social Responsibility

At Macarthur Coal, we take our role as a corporate citizen seriously. We believe it is best for us in the long term, both financially and socially, to act in a way that is responsible, socially aware and in the best interests of our stakeholders and the wider community.

Macarthur Coal's corporate social responsibility program has six main aspects:

- ensuring that all our work practices are carried out safely, ethically and responsibly
- respecting, supporting, encouraging and engaging our employees
- considering all aspects of the environment in the planning, development and operational phases of our activities and implementing environmentally responsible practices and procedures wherever possible
- building, maintaining and strengthening our relationships with the communities in which we operate
- communicating effectively with our broad range of stakeholders
- working to create wealth for our shareholders.

In the following pages you will find information on Macarthur Coal's corporate social responsibility policies, projects and outcomes.

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- LEADERSHIP & MANAGEMENT
- DIRECTORS' REPORT
- FINANCIAL PERFORMANCE

Lee Cook, Operator, after his shift at Coppabella Mine

Our People and Culture

Living the Four Pillars | Our employee profile | Making health and safety a value
Investing in our people | Valuing our current employees | Investing in our future employees

Macarthur Coal's goal is to be an employer of choice, that is, a company which attracts highly skilled and enthusiastic employees to join our team. We aim to recruit talented and dedicated people and provide them with the inspiration, leadership, skills, resources and support necessary for them to work safely, achieve their full potential and make their maximum contribution to the company.

Living the Four Pillars

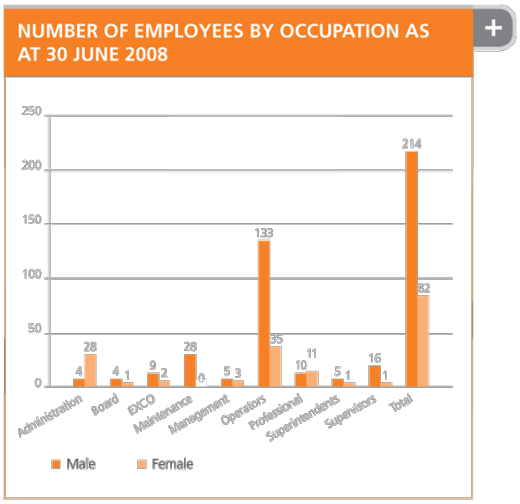
Macarthur Coal has a strong corporate culture that is underpinned by the Four Pillars. We adopted the Four Pillars in 2007 to provide a simple but meaningful mechanism with which employees can easily identify and adopt the core values that are at the heart of the company.

The Four Pillars are:

- **Lead the Way**
  - Be innovative in how we do things
  - Focus on constant evolution and improvement
  - Have a 'can do' attitude
  - Drive business growth through a customer focus and gaining advantage through partnerships
- **Talk Straight**
  - Use plain language
  - Communicate freely, while being mindful of impact
  - State clearly what we believe in
  - Respect each others' differences
- **Value People**
  - Ensure safety of our people is a top priority
  - Recruit and retain the best and most suitable
  - Focus on personal and career development
  - Reward good performance
- **Work Together**
  - Set high expectations for our people
  - Emphasise high levels of job satisfaction
  - Celebrate successes
  - Have a positive attitude
  - Work with customers, the community and stakeholders.

Our employee profile

Number of employees by occupation as at 30 June 2008



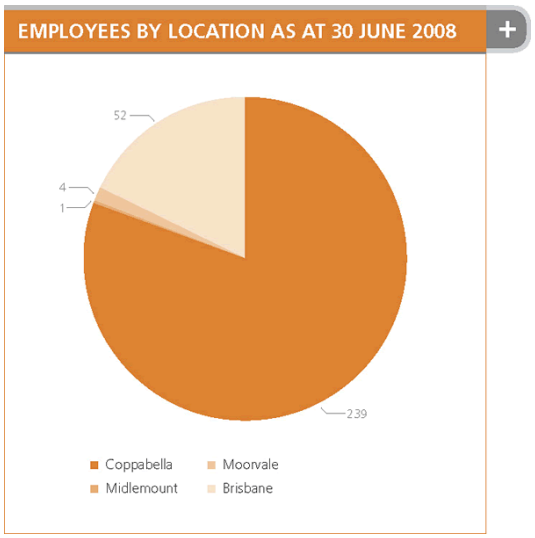
The higher percentage of males employed as operators reflects the industry profile however Macarthur Coal is an equal opportunity employer and encourages women to apply for non-traditional roles.

There were two major intakes of new operators in 2008 in order to provide staff for the dragline, new electric rope shovel and associated truck fleets. Total numbers of new operators were as follows:

Experience level	Females	Males	Total
No experience	26	11	37
Limited experience	8	18	26
Experienced	1	26	27
Total	35	55	90

By this it can be seen that the company actively supports and promotes the employment of women in non-traditional roles with more than 33% of positions held by women.

Employees by location as at 30 June 2008



The distribution of employees across the company reflects Macarthur Coal's current operations. Coppabella Mine has the highest number of employees as the company has completed the transition to owner operator with only the CHPP still being operated by contractors. Mining and CHPP activities at Moorvale Mine are still carried out by contractors with Macarthur Coal providing management services. Operational activities at the Middlemount project bulk sample pit are carried out by contractors with Macarthur Coal providing operational based management services.

Making health and safety a value

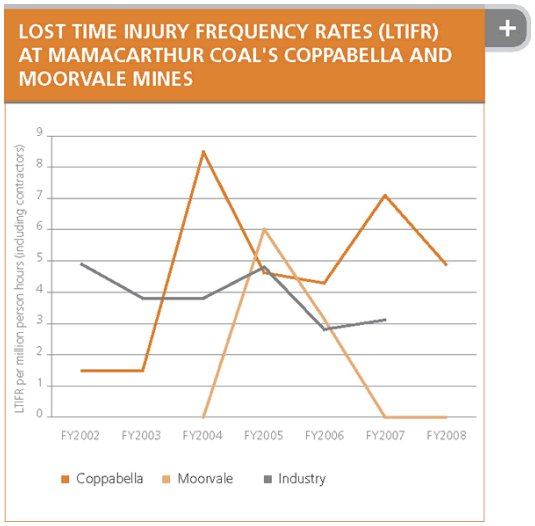
Providing a safe working environment for our people is one of the core values of Macarthur Coal and one of our Top Five business priorities. Emphasising the critical importance of health and safety in the workplace and providing the training, equipment, resources and structure to ensure that employees operate in the safest possible work environment is one of the primary ways in which we take care of and support our employees.

- Dissatisfied with the safety performance at Coppabella Mine, in 2008 we implemented a new across-company, behavior-based training regime. We have taken the approach that it is important to develop our people to value safety rather than see safety as merely an add-on to a production focus. This is part of our commitment to engendering behavioural change so that safety awareness is ingrained in our employees. In July, Coppabella Mine passed 100 days LTI free, an event which last occurred in 2006. Although 100 days LTI free is not an exceptional milestone in itself, it is an indication that the policies, procedures and systems that we have put in place are beginning to work and that employees are beginning to wholeheartedly embrace the importance of health and safety to both themselves and the company.

- In 2008 we established a Health and Safety Committee composed of the Chief Operating Officer, Chief Development Officer and the General Managers/Senior Site Executives from Coppabella and Moorvale mines and the Middlemount Mine project. The Committee has been formed to investigate new safety initiatives, procedures and policies and to keep abreast of industry updates in order to ensure that our employees have the safest workplace possible. The Committee provides regular updates to employees through the Spotlight on Safety section in the MacTIMES monthly employee newsletter.

- Moorvale Mine continues to exemplify the desired safety standard with another year with no lost time injuries. In addition, the Sedgman Ltd team which operates the Coppabella and Moorvale CHPPs recently celebrated seven years LTI free at the Coppabella plant which is an exceptional achievement.

Lost time injury frequency rates (LTIFR) at Macarthur Coal's Coppabella and Moorvale mines (per million person hours including contractors)



LTIFR as a 12 month rolling average for 2007-2008 (per million person hours)

Coppabella Mine	4.9 – as at 30 June 2008, this is a 31% improvement in the rolling 12 month LTIFR compared to the LTIFR at 30 June 2007 which was 7.1
Moorvale Mine	0.0 – as at 30 June 2008
Queensland open-cut coal mining industry	3.1 (for year 2006 - 2007. The results for 2007-2008 are not yet available)

- On 14 July 2008, the Middlemount team and Leighton Contractors at the Middlemount Mine project reached one year and project to date without an LTI.

- In 2008, we began a coal competency program. Coppabella's safety and training department embarked on a process of enhancing the quality of training documentation that is used onsite. We entered into a partnership arrangement with a well respected Registered Training Organisation (IML International) and have produced revised assessment booklets for 21 core unit models. These documents have been mapped against National Competency Standards contained in the National Coal Training Package (MNC04), and are underpinned by a statement of compliance for each unit produced. This program will continue to develop with the introduction of familiarisation documents and training manuals which will boost the levels of training and understanding across our business.

- The ICAM (Incident Causation Analysis Methodology) method of safety accident investigation is an easy-to-use, effective system to guide investigators to the root causes of incidents. It aims to identify both local factors and failures within the broader organisational and production systems that contributed to the incident, such as communication, training, operating procedures, incompatible goals, change

management, organisational culture, and equipment. Through the analysis of this information, ICAM provides the ability to identify what really went wrong and to make recommendations on necessary remedial actions to reduce risk and the chance of future incidents occurring.

- In 2008, Macarthur Coal invited James Wood to speak to employees on the minesites and also in the corporate office. James is a paraplegic confined to a wheelchair who now travels Australia and New Zealand highlighting the importance of safety in the workforce by speaking about the incidents leading up to the workplace accident which caused his disability. He was once employed in the mining industry but a simple choice he made put in motion a series of completely avoidable incidents which led him to have a serious workplace accident in which he broke his back. James was able to show first-hand how critical it is for employees to be aware of and vigilant in their safety standards and how making the wrong choice, which may seem inconsequential at the time, can have devastating flow-on effects.

- Coppabella and Moorvale mines share emergency response facilities and personnel. We have a fully-equipped fire and rescue truck which attends any emergencies at either mine and has also attended automobile accidents on Peak Downs Highway providing assistance until the arrival of emergency services. Trained employees are onsite at all times to staff the truck should it be required to attend an emergency.

- Macarthur Coal has a partnership with the Mining Industry Skills Centre (MISC) to operate the state-of-the-art 5DT virtual reality simulator at Coppabella Mine in a pilot study to determine industry training needs and the effectiveness of simulator training. The simulator can be used in pre-employment, operator upskilling and refresher training systems and, to date, has been used at Coppabella to assist in training new employees as well as giving experienced employees the opportunity to practice operating mining equipment in challenging conditions such as during wet weather, low visibility or mechanical failures. The simulator can be programmed to simulate several different types of machinery used by Macarthur Coal such as haul trucks, excavators and dozers and has also been programmed to simulate the topography of the Coppabella site. The simulator has been housed in a purpose-built facility and commenced operation in July 2007.

  From the commencement of the simulator program to 30 June 2008, over 120 direct training sessions were delivered with a prime focus on developing truck operation skills. This resulted in over 720 hours of simulator-based training.

  Macarthur Coal's new training program featuring the simulator was shortlisted as a finalist for the 2008 MISC Training Awards in the Small-Medium Award in the Company Award Category. At the time of printing, the winners had not been announced.

  More information on the simulator program can be obtained from the MISC website.

- At Macarthur Coal we support our employees in achieving and maintaining fit and healthy lifestyles. We sponsor a free mobile gym in Nebo for use by minesite employees, their families and the community. Corporate office employees are eligible for reimbursement of up to $1,500 per employee per annum for gym memberships or use of personal trainers. In addition, Macarthur Coal sponsors a weekly exercise session provided by a personal trainer which is held in the Macarthur Coal corporate office for any employees wishing to attend.

- The company conducts regular drug and alcohol checks of Macarthur Coal and contract employees on its minesites. In the 2008 financial year, 1,491 random checks were completed with five breaches of policy identified. In all cases, the breach was discussed with the person and corrective action was initiated.

- In 2008, we offered free flu vaccinations to all corporate office and minesite employees.

- Macarthur Coal has an Employee Assistance Program with Centacare which provides access to confidential counseling services for employees and their immediate families, if required. The company will fund up to six appointments for each employee. The service is completely confidential with no information about any employee who uses the service released to the company.

Investing in our people

Effective training and development are essential to the success of the company. Employees are encouraged to attend conferences and courses in their specialised areas and to report back to members of their teams and/or company any relevant information or details. Professional development sessions are conducted throughout the year for all employees and training needs are determined as part of the annual performance review process.

- With the move to owner operator progressing during 2008, it is essential for Macarthur Coal to ensure that employee training is given priority and that training methods and programs are efficient and effective and serve the needs of both the company and the individual. During 2008 a new minesite training management system was put into place and a detailed database was created in order to monitor and track training activities at the employee, department and company levels. The database enables management to assess training programs and to modify them and make improvements.

  Macarthur Coal is committed to employing the best people for the job and training them to operate efficiently and safely. We had two major new operator intakes over the year, taking on over 90 new employees as operators. Of these, 37 were inexperienced, 26 had limited experience and the remainder were experienced which means that 70% of the intake had little or no experience. Our training programs enabled us to assess their skills and provide the necessary training to each individual to ensure that, as quickly as possible, they were fully equipped to take on the requirements of their roles.

- Major minesite training activities over the past year included:
  - Induction training. All existing employees and those who transferred from the contractors previously employed by Macarthur Coal were reinducted under the new Safety and Health Management System to ensure that they are aware of Macarthur Coal's Four Pillars and other company policies, procedures and values. All new minesite employees (numbering over 90) were also given comprehensive induction programs.
  - Standard Operating Procedure training. This included compliance training to ensure all employees meet the operating requirements of the company and the industry.
  - Competency training. This included S1, S2, S3, G2, haul trucks, light vehicles, elevated work platforms, loaders, graders, excavators etc. Over 620 statements of attainment were issued by our Registered Training Organisation (RTO) IML International during the year. In order to determine which employees required which training, 3,598 competency assessments were carried out.
  - Emergency Response Block training. Our Emergency Response Team (ERT) consisting of 20 employees has undertaken rigorous training over the year in Occupational First Aid, breathing apparatus and G5 Conduct Fire Team training. In addition, each ERT crew undergoes one day of training per month in line with our commitments to ERT development and improvement.
  - Two full-scale mock emergency scenarios have been carried out at Coppabella Mine. These are designed to test overall response times, identify knowledge or experience gaps, and hone the skills of our ERT members. Both exercises have produced pleasing results.
  - We have provided the opportunity for 12 operators to complete four units from the Certificate IV in front line management allowing them career advancement.
  - All supervisors are undertaking Certificate IV in front line management.
  - We have made full use of the simulator for training both experienced and inexperienced operators.
- During 2008 Macarthur Coal employees and directors attended over 60 seminars and short courses in such areas as occupational health and safety, transport infrastructure, rescue training, first aid, budgeting, financial analysis, CPA training, corporate social responsibility, computer skills, investor relations, climate change and carbon trading, and bulk freight systems. Several employees are currently studying for university degrees or postgraduate qualifications.
- Financial support and study leave are available for employees undertaking business-related further studies.
- Clearing for construction began in April 2008 near Moorvale Mine on a Macarthur Coal accommodation village. The decision to build a dedicated village for Macarthur Coal employees only was made to ensure that we can offer the best in site accommodation to our people thus improving our ability to attract and retain high quality employees. The cohesive population of the village will also assist us in fostering the desired employee culture and maintaining our focus on health and safety. The build period is approximately 39 weeks for the completion of Stage 1 which will comprise 320 rooms, central facilities and recreation facilities.

Valuing our current employees

Providing a satisfying workplace where employees are valued and respected is another priority for Macarthur Coal. The Four Pillars underpin the company's commitment to providing employees with the challenges, support and resources they need to make their work satisfying and enjoyable.

- Executives and full-time employees may be eligible for bonuses for work or projects undertaken beyond the scope of their normal roles. Details of Macarthur Coal's Remuneration Policy are provided in the Remuneration Report.
- In 2008 Macarthur Coal introduced a comprehensive and sustainable Culture Program. It was developed as a result of the realisation that a one-day Culture Day was no longer feasible with the growing number of company employees. The aim of the program is to ensure that people understand and embrace the Four Pillars and integrate them into all aspects of their working life.
- Key components of the Culture Program include:
  - The Working Together Program is a three-day course developed in recognition that building a cohesive, high-performance culture depends on individuals understanding themselves and the shared values of Macarthur Coal and, in return, embracing the desired culture. Every two months, small groups of employees (a mix of minesite and corporate office and management and non-management employees) undertake the course which includes workshops and concludes with a team-based physical challenge.
  - The inaugural Foundations of Leadership Program was launched during the year. This is a one-day, intensive program focused on the development of leadership capacity in high potential employees. Employees from across the company's operations are nominated for participation by members of the Executive Committee.
  - A 'State of the Nation Address' is given by the CEO at least once every six months and covers the company's mission, vision, strategies, values and performance to date.
  - A formal business overview of Macarthur Coal's operations has been introduced as part of the new employee orientation process.
  - A new Intranet was introduced in 2007 and continues to be used as a platform for providing updates across the company.
  - In January 2008, the MacTIMES employee newsletter was introduced. This is a monthly publication distributed to all employees on all sites to provide timely updates on company information as well as news of our employees. The newsletter includes a regular column from the CEO called 'Talking Straight with Nicole' and is a forum for the CEO to highlight any issues or achievements from the past month. The newsletter also has regular safety and human resources sections.
  - Team meetings/toolbox chats occur on at least a monthly basis to update employees on activities in

their own areas or across the company.
- The Executive Committee participates in a yearly retreat which focuses on the culture to which we aspire and facilitates senior management in setting tangible actions to achieve our goals.
- A range of social events and celebrations are held at the different locations to assist people in getting to know each other. Two very successful events were the Minesite and Brisbane Family Fun Days. Over 190 adults and children attended the Minesite Family Fun Day and enjoyed mine tours, a barbeque, music and the opportunity to inspect some very large equipment. Over 50 people (employees and family members) attended the Brisbane Day and participated in bare-foot bowling while the children were entertained by a face painter and other activities.
- As part of the Culture Program, the company gave several awards to recognise the contribution that specific employees have made. Any employee may nominate a colleague for an award with the final decision being made by the CEO in consultation with the Board. In 2007, the following awards were made:

- The Spirit of Macarthur Coal Award
  - Angela Baldo, Financial Controller
  - Maureen McDermott, Coal Quality and Logistics Officer
- Lead the Way Award
  - Michele Runnegar, Marketing Officer-Logistics
  - Greg Burke, D Crew Truck Shovel Supervisor
- Policies and procedures are in place to ensure employees are aware of their entitlements and obligations with respect to achieving a workplace free of harassment, discriminatory employment practices and unethical business practices. The documents are reviewed regularly and are provided to new employees on commencement. In addition, in 2007, all Macarthur Coal employees received mandatory training in diversity and respecting each others' differences in the workplace.
- In 2008 the services of a financial planner were provided free of charge to all Macarthur Coal employees who wished to access personal financial advice. Employees were invited to include their partners in the sessions if they desired. The initiative was taken to provide employees with an opportunity to develop personal financial management skills and increase their awareness of savings and investment options.

Investing in our future employees

Macarthur Coal considers it prudent and responsible to invest in development and training for future employees in the resources sector and the following activities help to support that goal.

- The Queensland Minerals and Energy Academy was launched in November 2005. It is a partnership between the Queensland Government's Department of Education and the Arts, the Queensland Resources Council, training providers and academic providers. The Academy provides high school students with a direct route into the resources sector, helping to ease the skill shortages currently affecting the sector. Macarthur Coal is a sponsor of the Academy which is an important initiative for the ongoing future of the resources sector in Queensland. More information about the Academy is available at the website at www.qmea.org.au.
- Macarthur Coal is also a sponsor of the Mining Industry Skills Centre (MISC) and, as previously noted, is working with the Centre on their simulator project. The company is also participating in the MISC Mining Industry Heartbeat Project. This project aims to address the current resources industry skill shortages by assisting in the development of skills strategies through the compilation and consolidation of data from across the entire Australian mining industry. Software will then be utilised to identify trends in the demographics of the mining industry and to model different skill scenarios to determine where future shortages may exist and to what extent different strategies will address them. More information about the Centre and the Heartbeat Program can be found on the MISC website.
- In July 2006, Macarthur Coal initiated the Macarthur Coal Mining Engineering Scholarship which is open to students studying for a Bachelor of Engineering at the University of Queensland. Students must have successfully completed the first year of their course and the scholarship is awarded on merit with preference given to applicants who express an interest in coal mining. The scholarship provides an annual stipend of $10,000 for the remaining three years of the recipient's degree. The recipient of the scholarship in 2008 was Amanda Layther.
- Macarthur Coal also has a relationship with the School of Mining Engineering at the University of Queensland to provide paid work experience to undergraduate students who are studying mining engineering and have a desire to work in the coal mining industry. Students are invited to contact Macarthur Coal to express their interest and the students are then assessed for suitability. Once a student is selected, we liaise with the student and the University to determine an arrangement that will suit all parties and takes into account duration of employment, duties and roles, and structure of the program. The arrangements can differ considerably from student to student as needs dictate. For example, some students work for up to 12 months one day per week during semester and with longer periods of time during vacation, while others may be granted leave from their formal study to undertake a period of full-time employment with Macarthur Coal.
- The company hosts a school-based trainee who has joined us for a second year of training within our technical services department. We offer development as part of our surveying team and this allows our trainee to gain invaluable on the job, site-based training for one day per week over a 12 month period.
- Coppabella Mine offers host opportunities for MRAEL employees in both the workshop and open-cut mining environments. MRAEL is a not-for-profit, community-funded, private enterprise organisation

employing over 750 apprentices through central Queensland. We have two apprentice workshop fitters with a commitment to assist them in achieving a trade qualification over a four-year period. We have an additional four people undertaking traineeships as equipment operators which will give them up to three skills over a one-year placement.

- Our commitment to the community includes an ongoing program to offer training opportunities to indigenous workers in line with our Cultural Heritage Management Plan. Each training plan lasts for between three to six months. This gives opportunities for indigenous workers to gain skills that can allow them access into the mining industry (light vehicle and haul trucks to Coal Competency Standards for example) and the program promotes personal development as well assisting the industry in addressing the skill shortages. In 2008 we were pleased to offer permanent employment to three of our trainees who have now become important and valued members of our team.

PREVIOUS NEXT

COMMUNICATION OBJECTIVE
HIGHLIGHTS & ACHIEVEMENTS
CHALLENGES
FINANCIAL RESULTS
OUR FINANCIAL CONTRIBUTION TO THE ECONOMIES OF THE REGION, STATE & COUNTRY
OUR TOP 5 PRIORITIES FOR 2008
OUR PROFILE
OUR TOP 5 PRIORITIES FOR 2009
CHAIRMAN'S REPORT
CEO'S REPORT
OUR OPERATIONAL PERFORMANCE
CORPORATE SOCIAL RESPONSIBILITY
LEADERSHIP & MANAGEMENT
DIRECTORS' REPORT
FINANCIAL PERFORMANCE

Macarthur Coal assists many communities through its Sponsorships and Donations Proram. One recipient is the Eimeo Surf Club at Mackay. Here children in their Nippers program undergo training.

Engaging with our Communities

Communicating effectively | Contributing financially through sponsorships and donations
Shares for Schools Program | Other social and community activities

At Macarthur Coal, we believe that the measure of success goes beyond building wealth for shareholders. Although wealth creation is the primary purpose of the company, in order to be considered truly successful in the long term it is important that we are fully integrated within the communities in which we operate and on which we have an impact.

Communicating effectively

Communicating effectively with all our stakeholders is a priority for Macarthur Coal. As the company has grown in both size and value, so has the need to ensure that all levels of communication, both internal and external are timely, informative and add value to the business. In 2007 a comprehensive audit of the various communication activities within the company was undertaken and a detailed Corporate Communications Plan was developed. The plan will be used to ensure that communication activities continue to be targeted to the appropriate stakeholders in a timely and informative fashion.

Major aspects of the Corporate Communications Plan are:

- **Investor relations**. Investor Relations are a key component of communication for any publicly listed company. Stakeholders who are interested in the financial side of the company include shareholders, business analysts, brokers, and the media just to name a few. We employ several methods to communicate with these stakeholders including quarterly, half yearly and annual reports. In both 2007 and 2008 the Macarthur Coal Annual Report has won a gold award for reporting from the Australasian Reporting Awards. Other strategies include national and international roadshows where interested analysts can attend presentations given by senior company executives and interact with them one-on-one, teleconferences, conference presentations and ASX releases. Brokers and analysts are also encouraged to contact the company directly if they have questions or require information.
- **Corporate website**. In October 2007 a new corporate website was launched. The website is user friendly and allows for simple navigation so that visitors can find information easily.
- **Nebo News**. Nebo News is a free community newspaper that is produced monthly. Macarthur Coal sponsors the publication and supplies stories about Macarthur Coal that are of interest to the general community.
- **Internal communication**. With the company growing in size and spread across four sites (Coppabella, Moorvale, Middlemount and our Brisbane office) effective internal communication is essential. A new monthly employee newsletter has been launched and an intranet also facilitates internal communication.

- **Media relations**. The company maintains a good relationship with its stakeholders in the media.
- **Communications with key government and industry bodies**. At Macarthur Coal it is vital that we maintain our relationships with key government and industry organisations. For example, CEO, Nicole Hollows, is a member of the Board of the Queensland Resources Council and the company has a close relationship with such organisations as the Mining Industries Skills Centre, the Blackwater International Coal Centre, and the Queensland Minerals and Energy Academy for example.
- **Sponsorships and donations**: More information on the company's sponsorships and donations program follows.

Contributing financially through sponsorships and donations

The company is dedicated to supporting our communities through sustainable development and through our sponsorships and donations program.

The sponsorships and donations policy sets out the objectives of the program and criteria for assessing requests for support and funding. The objectives are to:

- foster support for the company from communities affected by Macarthur Coal's activities
- illustrate that Macarthur Coal is not simply a company existing within the community but that it is a contributing and active member of the community demonstrating principles of responsible corporate citizenship
- increase community confidence in Macarthur Coal as a fair and responsible company.

Priority is given to supporting projects within Macarthur Coal's broad communities which meet the following criteria:

- educational initiatives – including initiatives to address the resource sector skill shortages
- programs to support and develop opportunities and initiatives for children
- projects involving community development and assistance
- projects which support charities and/or community services
- projects where Macarthur Coal's donation does not represent the major component of the project's or the organisation's income.

During the 2008 financial year Macarthur Coal's contributions of $165,902 to the individual projects (detailed in the following) added to the $31.4 million in coal royalties that the company paid to the Queensland Government and which go toward providing infrastructure for communities across Queensland. More information on the company's financial contributions to the community see here.

Shares for Schools Program

Macarthur Coal's Shares for Schools Program has been operating since 2002. The program provides financial assistance to public and private high schools in Queensland as well as the opportunity for high school students to gain insight into and understanding of the business of a publicly listed company.

In September, a mixture of six state and private high schools from across Queensland, are invited to participate in the program. Each new school receives a parcel of shares in Macarthur Coal. For the first three years of the program, schools received shares to the value of $2,000 however, in 2005 this was increased to $5,000. The shares are held in trust for two years with dividends reinvested on behalf of the schools. Schools are encouraged to track the performance of the company from the perspective of real shareholders.

After the two years, schools are given the choice of retaining their shares or having the shares sold with the proceeds given to the schools' parents and citizens associations. To date, four groups have matured: 27 schools have opted to retain their shares and two schools requested that their shares be sold. One school will use their shares as a basis for an annual student business award, to be named the Macarthur Coal Award, with all dividends going to provide a financial prize to the winning student.

Historically, a teacher and a student representative from each school are invited to attend the company's Annual General Meeting. However, in order to optimise the participants' time with the Board and senior management and to gain the greatest benefit from the program, in 2008, the participants will be invited to meet the Board members in October. The participants will be able to interact with the Board and senior management one-on-one and will also be given more detailed information about Macarthur Coal and its place as a listed public company in the Australian and world business community.

Each of the attending students is then invited to submit a report on matters concerning aspects of the business of a publicly listed company in order to be eligible for the Macarthur Coal Award. The student who submits the best report receives the Macarthur Coal Award which consists of a $5,000 scholarship towards university fees for the student and an additional $5,000 worth of Macarthur Coal shares for their school.

In 2007-2008, the students were asked to find certain information in the company's annual report, define corporate governance and write about two of the ASX principles for good corporate governance, explain why listing on the ASX is beneficial to companies, and investigate and write about corporate social responsibility.

Emily Chalk from Somerville House in Brisbane received the award in 2008 and was presented with a cheque and certificate by CEO, Nicole Hollows, at a school assembly in August 2008. Emily's report showed an impressive understanding of the questions asked and she was able to combine this with astute personal insights and interpretations which allowed her to produce an outstanding report.

Schools Currently Participating in the Shares for Schools Program

Group 5 – 2006	Group 6 – 2007	Group – 7 2008
Calamvale Community College	Bundaberg SHS	Beenleigh SHS
Cannon Hill Anglican College	Ipswich Girls Grammar School	Helensvale SHS
Fraser Coast Anglican College	Pioneer SHS	Ormiston College
Spinifex State College	Sarina SHS	St Luke's Anglican School
	Somerville House	St Patrick's College
		Whitsunday Anglican School

The current schools involved in the program grouped according to the year in which they became involved.

Group	Initial no of shares	Additional shares	Total no of shares held	Value of initial shares	Value when transferred from scheme to school	Value at 30 June 2008
1	1,709	80	1,789	$2,000	$7,693	N/A
2	1,400	113	1,513	$2,000	$7,053	N/A
3	560	61	621	$2,000	$3,329	N/A
4	901	102	1,003	$5,000	N/A	$16,921
5	1,080	55	1,135	$5,000	N/A	$18,608
6	550	0	550	$5,000	N/A	$9,279

Groups 1, 2, 3 and 4 have had their shares transferred and so the value at 30 June 2008 is unknown. Groups 5 and 6 have not yet had their shares transferred. The shares for Group 7 will be purchased in September 2008.

Other social and community activities

Kids Help Line

Macarthur Coal is committed to supporting initiatives which aid young people within Queensland. In 2008 we commenced the development of a relationship with Kids Help Line, a free service which provides confidential telephone, email and web counselling services to young people up to 25 years of age. The service receives, on average, about 12,000 calls per week of which its trained counsellors, are able to answer about half (due to funding and staff shortages). Macarthur Coal considered Kids Help Line a particularly pertinent and relevant organisation with which to become involved as many of our employees live in remote locations where there is far less access to services than metropolitan centres. In April, Maree Bryan, Kids Help Line Manager Corporate Relations, and one of the service's former clients, Mareka Newey, visited the company's Brisbane office to outline the service's function and highlight some of the challenges the service faces. The large number of employees who attended the presentation were particularly moved by Mareka's description of her experiences and how the counsellors at Kids Help Line had enabled her to overcome serious abuse in her childhood and go on to successfully study psychology at the University of Queensland. More information on the services offered by Kids Help Line is available on their website at www.kidshelp.com.au.

Central Queensland Helicopter Rescue Service

The CQ Helicopter Rescue Service is based in Mackay and provides rescue transport services across the Bowen Basin and remote Queensland communities. The helicopter has been used for transporting personnel injured at Coppabella Mine. The Service is a not-for-profit charity and relies heavily on corporate and public donations to meet its operating costs. More information is available at www.cqrescue.com.au.

Blackwater International Coal Centre

Macarthur Coal became a major sponsor of the Blackwater International Coal Centre which has been established in Blackwater to promote and showcase the Australian coal industry to tourists. The Centre includes a coal industry interpretive centre, an education and community centre, exhibition space, a theatre, cinema, café merchandise outlet and themed landscaping and was officially opened by the Premier, the Hon Anna Bligh, on 31 August 2008. For more information go to www.bicc.com.au.

4RFM Moranbah Community Radio Station

The 4RFM community radio station at Moranbah is staffed almost entirely by volunteers and provides a range of programs and music to cater for the whole community. The station commenced in 1997 as a youth project but has since expanded and was granted a permanent broadcast licence in October 2005. Macarthur Coal sponsors the 'Triple A Morning Show', which airs from 6am to 8am, seven days a week, and focuses on issues of safety and health in the community including the major issue of driver fatigue. The show features energetic, upbeat music to assist in keeping listeners alert while they are driving. Macarthur Coal also sponsors the 'Drive Home' program which airs from 6pm to 8pm on weeknights. For more information go to www.rockfm.com.au.

Mining Industry Skills Centre

The Mining Industry Skills Centre is a not for profit organisation formed in 1996 as a collaborative venture between the mining industry and government to establish a Centre for Excellence for the development and implementation of training initiatives in the mining industry. Macarthur Coal is a major sponsor and also works with the Centre on their simulator program. For more information on the Mining Industry Skills Centre go to www.miskillscentre.com.au.

Bom Pasteur Drug and Alcohol Rehabilitation Centre

The Bom Pasteur Drug and Rehabilitation Centre is located in the Brazilian city of Ouro Branco. Macarthur Coal's association with the Centre arose out of our relationship with customer, Gerdau Açominas, which is also involved in the project. Macarthur Coal's sponsorship of the Centre helps a group of severely disadvantaged people in one of the wider global communities of which we consider ourselves a member.

Nebo Mobile Gym

For the past four and a half years, Macarthur Coal has sponsored the City Fitness Health Club mobile gym at Nebo for use by minesite personnel, their families and the community. Nebo State School students also attend the gym once per week. Initially the gym was provided one day per week but this has been increased to two days due to increased demand. Macarthur Coal also collects a donation of three dollars from contractors and non-residents each time they use the gym and the money raised is used to purchase additional facilities.

Queensland Minerals and Energy Academy

The Queensland Minerals and Energy Academy (QMEA), a partnership between the Queensland Government, the Queensland Resources Council, and training and academic providers, aims to give high school students clear pathways into one of the state's most innovative and economically important sectors. Macarthur Coal, along with other relevant organisations, sponsors the Academy which aims to help to reduce the skill shortages in the resources sector. More information is available at www.qmea.org.au.

Eimeo Surf Life Saving Club (Mackay)

The Eimeo Surf Life Saving Club in Mackay is a large club with a high proportion of children as members. Macarthur Coal's support of the club reinforces our focus on our people and includes their families and those of the wider community.

Lloyd McDermott Rugby Development North Queensland U16s Indigenous Rugby Carnival

This carnival was held in Mackay over the June long weekend and featured teams of under 16 indigenous rugby players from Mackay, Townsville, Gladstone and Rockhampton. The Lloyd McDermott Rugby Development Team aims to deliver opportunities to the Aboriginal and Torres Strait Islander youth of North Queensland.

Greenhouse Gas Emissions and Clean Coal

For information about Macarthur Coal's contributions to projects aimed at reducing greenhouse gas emissions and producing clean coal technology see here.

World Vision Sponsorship

Macarthur Coal corporate office employees support nine year old Krishna Bai Shishupal who lives with her family in southern Rajasthan in India. The support enables Krishna Bai to go to school, have fresh food and clean drinking water and also helps World Vision to strengthen the local community through educational and social programs.

Red Cross Blood Bank

Many corporate office employees regularly donate blood to the Brisbane Red Cross Blood Bank.

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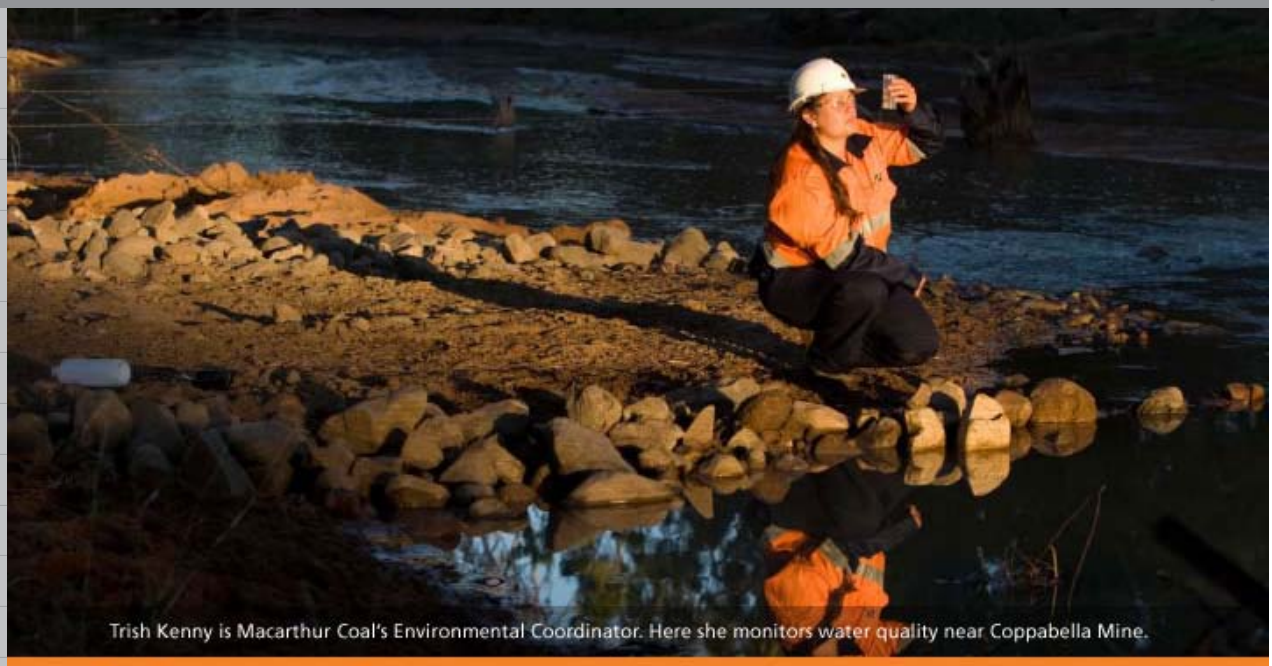

Trish Kenny is Macarthur Coal's Environmental Coordinator. Here she monitors water quality near Coppabella Mine.

Managing our Environmental Impact

Carbon Committee created to monitor environmental impact | Informing and educating our employees
Managing the environment | Ensuring environmental awareness
Continuous environmental reporting | Communicating with the local community
Undertaking rehabilitation | Environmentally- and culturally-aware exploration
Managing waste effectively | Managing our water resources
Commitment to sustainable production and coal use initiatives

Responsible environmental management is both a commitment and a priority for Macarthur Coal. As part of our overall business approach and fundamental to the growth of shareholder value, we are committed to undertaking our activities in a sustainable and responsible manner.

Carbon Committee created to monitor environmental impact

In 2007, the company created a Carbon Committee to develop a carbon emissions management strategy with the following identified as the starting points:

- understanding Macarthur Coal's carbon footprint with respect to operations and customers
- improving the management of greenhouse gas (GHG) emissions across operations
- continuing to support and participate in industry research and development projects such as COAL21
- undertaking government and stakeholder liaison in the design of climate change policies.

In April, the Board approved the company's Climate Change Policy:

Climate Change Policy

Macarthur Coal recognises that Climate Change is an international and community issue and therefore represents one of the company's Top Five strategic priorities.

We believe that emissions associated with mining can be mitigated and that emission reductions resulting from the use of coal are achievable within a sustainable development framework.

Macarthur Coal supports a reduction in energy use and greenhouse gas emissions.

We are committed to:

- *ongoing measurement of carbon emissions across Macarthur Coal operations and the value chain to better understand the sources of energy use and greenhouse gas emissions, including in relation to all new developments*
- *reporting of carbon emissions internally and externally to meet stakeholder demand for transparency and statutory obligations for reporting energy use and greenhouse gas emissions*
- *understanding the potential impact changes in the climate system may have on Macarthur Coal's operations*
- *systematically identifying and quantifying climate related costs and risks in the Macarthur Coal value chain*
- *communicating with our stakeholders on our approach to Climate Change and seeking their involvement.*

To date, emissions statistics for the 2008 financial year have not been collated and there are currently no emissions targets in place. Our Climate Change Policy deliberately falls short of committing to reduction targets, as the focus for the next twelve months will be on improving our data collection and reporting processes to ensure accuracy and identifying aspects of our operations where reductions in emissions and energy use can be achieved.

Informing and educating our employees

At Macarthur Coal we realise that our employees play a vital role in our commitment to managing our carbon footprint and mitigating our impact on the environment. Our employees are kept informed of the company's policies and strategies for environmental management and the issue of climate change and encouraged to be environmentally aware and responsible both while at work and at home.

In 2008, the Carbon Committee launched the company's Climate Change Policy on 5 June, World Environment Day. In launching the policy, the company offset 100% of its office electricity usage for one month through payment to a not-for-profit organisation, Carbon Neutral, which created the offset through the planting of over 75 trees.

The company also participated in Earth Hour 2008 by encouraging employees to switch off their lights for one hour from 8pm on 29 March 2008.

Managing the environment

Macarthur Coal operates within site-specific Plans of Operations that are submitted to the EPA on an annual basis. Each Plan of Operations and amendments to these plans are subject to EPA approval.

Environmental activities at Coppabella and Moorvale mines are managed by the joint venture manager, Macarthur Coal (C&M Management) Pty Ltd (MCCM). MCCM is responsible for ensuring that all site contractors install, maintain and operate all plant and equipment in compliance with the conditions of the Environmental Authority (EA) enforced by the EPA.

An Environmental and Government Liaison Officer oversees Macarthur Coal's environmental obligations and a full-time Environmental Coordinator is engaged to manage day-to-day environmental matters including monitoring environmental impacts and ensuring compliance with environmental regulations.

The Environmental Coordinator's responsibilities include:

Setting, communicating and evaluating environmental objectives and targets

This involves having input into and working to management plans approved by the EPA to identify priorities for the coming year. Such priorities may include: evaluating and identifying how much rehabilitation will be undertaken and within which areas; monitoring and evaluating water management on an ongoing basis; and communicating with the EPA where necessary. Another integral aspect is to communicate water and other environmental issues to the community including landowners and Aboriginal groups.

Developing and implementing environmental management documentation

We utilise a comprehensive database to capture relevant environmental data and produce comparative reports to aid in tracking the progress Macarthur Coal is making in regard to environmental management objectives and targets.

Identifying requirements for corrective action

This involves regular inspection of rehabilitated areas and areas which are scheduled for rehabilitation to ensure there are no issues which need to be addressed. If problems such as erosion, adverse weather conditions or water quality issues are identified, the Environmental Coordinator maps out corrective actions to address such issues, allocates them to the necessary parties and ensures that the corrective actions are carried out.

The Environmental Coordinator must also respond to any issues arising within the local communities as a

result of Macarthur Coal's actions. For example, in 2007, a local landowner complained of excessive dust resulting from Macarthur Coal's blasting activities at Coppabella Mine. The Environmental Coordinator liaised with the landowner to establish the extent of the problem and then worked with the blasting contractor and the EPA to identify and implement remedial action.

Monitoring and reporting compliance against legislative requirements

Five years after rehabilitation of an area is undertaken, the Environmental Coordinator is required to report on progress to the EPA. In order to report comprehensively, regular ongoing inspections and audits of rehabilitated areas and information about any corrective action required is recorded. The Environmental Coordinator also ensures that any necessary actions or programs are implemented. An external contractor may be requested to monitor the rehabilitation process throughout the yearly cycle in order to ensure current ecosystems are maintained. The ecosystems may have unknowingly been disturbed by adverse weather throughout the region.

Ensuring environmental awareness

Macarthur Coal employees and contractors are informed of applicable environmental statutory and contractual obligations where relevant to their role and the location in which they work. The program to make employees aware of these obligations requires each site-based employee to undergo a site-specific mine induction when they commence their employment which includes training in environmental awareness. If there are any changes to environmental statutes or policies, the Environmental Coordinator will liaise with the management of the contracting companies to ensure that all employees are informed of the new requirements.

Continuous environmental reporting

Management is provided with monthly environmental performance reports and any non-compliance issues are reported to the Board. In March 2008, Coppabella Mine was issued with two warning notices from the EPA. The first was for releasing water from a sediment dam (which was not in compliance with our EA). The second was for a contravention for failure to undertake water sampling in accordance with EA conditions. Consequently, Macarthur Coal was issued with one $1,500 fine. In July 2007 Moorvale Mine received an infringement penalty of $1,500 for unauthorised water discharge from the Moorvale sediment dam. Both infringements were investigated and procedures put in place to mitigate recurrence.

Ongoing liaison is undertaken with the EPA to ensure awareness of any changes to policies or guidelines and to ensure that conditions are not breached.

Communicating with the local community

Maintaining open communication and consultation with local communities is a priority for Macarthur Coal. For example, neighbouring landowners are contacted and informed of any blasting which is to take place and they are also sent selected environmental monitoring results such as those dealing with dust and/or water. Macarthur Coal realises the importance of building and maintaining strong local relationships through communication with and involvement in the local communities.

Undertaking rehabilitation

Successful rehabilitation of mined areas is fundamental to Macarthur Coal's operating culture. The company aims to ensure that, in the long-term, its mining activities impact on the local ecosystem as little as possible.

Rehabilitation is undertaken progressively on the minesites and commences as soon as possible after disturbance ceases or areas are identified as no longer reserved for infrastructure or subject to further disturbance. Provision for the cost of rehabilitation activities is made in the company's budget and is detailed in Note 8 of the financial report.

Rehabilitation involves recontouring slopes to a 1:7 batter and building drainage structures to limit rainfall runoff eroding rehabilitated areas. Scrapers replace the stockpiled topsoil which was stripped and set aside during the commencement of mining operations onto the slopes. The area then undergoes revegetation involving seeding, fertilising and mulching. After the seed has become established, trees are planted to provide further stability and to meet EPA requirements for end of mine life. Revegetation activities are undertaken just prior to the wet season as this timing maximises the strike rates of the seeds. Only local species of trees and grasses are used in the rehabilitation process to minimise weeds and mitigate any other possible environmental issues.

In the 2008 financial year, unfortunately no rehabilitation was able to be undertaken at Coppabella Mine. The severe weather from December 2007 to February 2008 twice washed away the re-contouring, topsoil and seeding on the areas to be rehabilitated at Coppabella Mine. This 30 hectare area will now be the first to be rehabilitated in the 2009 financial year. Twenty-seven hectares were rehabilitated at Moorvale Mine during the year. No rehabilitation was undertaken in the 2007 financial year due to the late delivery of machinery and the drought conditions.

REHABILITATION UNDERTAKEN AT MACARTHUR COAL'S MINES

	Coppabella Mine (hectares)	Moorvale Mine (hectares)
Prior to June 2003	21	-

2004	76	8.5
2005	81	11.5
2006	48	16
2007	0	0
2008	0	27
Total as at 30 June 2008	226	63
Planned 2009	60	10
Total as at 30 June 2009	286	73

The second stage of an Australian Centre for Mining Environmental Research (ACMER) project involved in researching procedures to improve the identification and management of the dispersive soils typically found at Coppabella Mine was completed. Recommendations for the most suitable placement of dispersive topsoil and managing existing spoil dumps have been developed from the research findings.

Environmentally- and culturally-aware exploration

Macarthur Coal's exploration activities are undertaken with the sensitivity that matches the particular circumstances that exist on each tenement. Operations are conducted in accordance with the conditions of the relevant EA and in consultation with landowners. Cultural Heritage searches are also undertaken by the relevant claimant groups before any land disturbance takes place. The impact to landowners and the environment is minimised as much as possible and damage to ecosystems is avoided.

Once an exploratory hole is drilled, logged and surveyed, the hole is plugged and capped. The drill site is then rehabilitated with the backfilling of any depressions and leveling of the site. Revegetation of drill sites and traverses is monitored over time and reseeded where necessary to the landowners' satisfaction.

Should the prospect progress to a mine development project, extensive environmental field surveys are completed in support of an application for the grant of a mining lease.

In 2008, clearing of land commenced near Moorvale Mine for Macarthur Coal's new accommodation village. During the clearing, some protected plants, *Desmonium Macrocarpia*, a perennial herb, were discovered. These plants are protected under specific Planning and Environment Court Orders 3A(a) and 3A(b). In association with the EPA, all clumps of *Desmonium Macrocarpia* were carefully removed from the accommodation village site and were relocated to another appropriate site.

Managing waste effectively

Waste at Coppabella and Moorvale mines is managed by integrating the principles of the waste management hierarchy (avoidance, reduction, recycling or disposal) and avoiding any direct or indirect impact on the health of the local community or the diverse ecology surrounding the minesites. The company has a waste management plan which has been approved by the EPA. The plan includes provision for the ongoing monitoring of waste management.

Macarthur Coal's waste management policy does not permit landfills onsite. All waste is removed by registered waste management contractors for recycling or disposal.

Macarthur Coal's corporate office participates in reuse and recycling programs for laser printer cartridges, fax and ink cartridges and photocopier toner bottles. Waste paper is also collected and recycled.

Managing our water resources

Although there were severe rain events from December 2007 to February 2008 that led to a large amount of in pit water in the mines which delayed operations until it was pumped out, technically Queensland is still in the grip of one of the worst droughts on record. Therefore ongoing and sustainable water management at Macarthur Coal's mines remains a priority. Water is recycled wherever possible and new ways of conserving water are being investigated. All water used in coal production is recycled but a percentage is lost to evaporation.

The exceptional rain events that occurred during December 2007 to February 2008 ensured that onsite water storages were fully replenished.

Further storage was added at Moorvale Mine with the completion of an additional 500Ml storage cell.

The Burdekin Pipeline was commissioned in August 2007 and ensures that both mines will continue to have an adequate water supply.

The Macarthur Coal accommodation village being constructed near Moorvale Mine will have its own water purification plant which will eventually supply both the village and the Moorvale minesite.

Commitment to sustainable production and coal use initiatives

The drive to increase research and development into clean coal technology and sustainable production has grown during the past year with major funding announcements from the federal and Queensland

governments as well as the coal mining industry. Climate change is firmly on the national and international agenda and Macarthur Coal is a participant in several projects with the purpose of researching and implementing clean coal technologies.

COAL21

Macarthur Coal is a participant in COAL21 which is an initiative of the Australian Coal Association aimed at reducing greenhouse emissions arising from the use of coal in electricity generation in Australia. It is a collaborative, consensus-building program involving participants from federal and state government, the coal and electricity industries, and research organisations.

In May 2007 Queensland's coal industry pledged to raise approximately $1 billion over ten years to fund clean coal technologies through the COAL21 fund. Queensland and New South Wales coal producers, including Macarthur Coal, agreed to a levy of 20 cents for every tonne of coal sold.

The objectives of COAL21 are to:

Create a national plan to scope, develop, demonstrate and implement near zero emissions coal-based electricity generation that will achieve major reductions in greenhouse gas emissions over time while maintaining Australia's low cost electricity advantage.

Use the plan to inform governments and industry as an input to policy development.

Facilitate the demonstration, commercialisation and early uptake of technologies identified in the plan.

Promote relevant Australian research development and demonstration (RD&D) so that it can both build upon and make a unique contribution to international RD&D in the area.

Foster greater public awareness of the role of coal and the potential for near zero emissions coal-based electricity generation to significantly reduce or eliminate greenhouse gas emissions and other environmental impacts associated with its use.

Provide a mechanism for effective interaction and integration with other international zero emission coal initiatives.

More information about COAL21 can be found at www.COAL21.com.au.

Greenhouse Challenge Plus

MCCM, manager of the Coppabella & Moorvale Joint Venture, is a signatory to the Greenhouse Challenge Plus which enables Australian companies to form working partnerships with the Australian Government to improve energy efficiency and reduce greenhouse gas emissions. As a signatory, MCCM undertakes to integrate greenhouse issues into its decision-making processes.

Examples of the commitment to consider the level of CO2 emissions from operations include:

- use of a Marion 8200 electric dragline for overburden removal at the Coppabella Mine. It is estimated that annually the dragline emits approximately 1,400 tonnes of CO2 less than an equivalent truck and excavator fleet.
- use of a P&H 4100 electric rope shovel (to supplement the dragline) and associated Caterpillar 240 tonne truck fleet. The shovel commenced operations in early 2008. As the shovel is electric, its use helps to reduce diesel usage and improve energy efficiency.

More information about the Greenhouse Challenge Plus can be found on the website at www.greenhouse.gov.au/challenge/.

Australian Coal Association Research Program (ACARP)

ACARP's mission is to research, develop and demonstrate technologies that lead to the safe, sustainable production and use of coal. Australian black coal producers, including Macarthur Coal, contribute five cents per tonne of coal sold towards research undertaken by ACARP.

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

Macarthur Coal is participating in an ACARP study to determine best practice for water and mine management in northern Bowen Basin coal mines. ACARP's website is at www.acarp.com.au.

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The dragline, an excavator and a haul truck at Coppabella Mine.

Our Financial Contribution to Federal, State and Regional Economies

As a responsible corporate citizen, Macarthur Coal contributes financially to the economy at both a state and federal level and to the communities in which we operate.

For example, in 2008 Macarthur Coal contributed:

- $165,902 through its community sponsorships and donations program
- over $23.9 million in salaries, wages and superannuation to its employees (excluding contractors)
- $25.3 million in company tax
- $19.5 million in dividends to shareholders
- $31.4 million in royalties to the Queensland Government (on a 100% joint venture basis)
- $30.5 million in rail freight charges (on a 100% joint venture basis)
- $24.5 million in port charges (on a 100% joint venture basis) excluding demurrage.

The company also made a substantial contribution to the local communities in which we operate through the purchase of services and supplies. Employees and contractors at Coppabella and Moorvale mines and the Middlemount Mine project also add a significant economic contribution to the Nebo, Coppabella, Moranbah and Middlemount townships through their purchases from local businesses.

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Directors and Senior Management visit Coppabella Mine.

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Macarthur Coal's Board of Directors Chen Zeng, Nicole Hollows, Keith De Lacy, Roger Marshall and Peter Forbes.

Board of Directors

Details of the directors of the company at any time during or since the end of the financial year are as follows:

Keith De Lacy, AM, 68

BA, HonDLitt, DUniv, QDA, FAICD, FAIM
Chairman
Independent, non-executive Director

Keith has extensive commercial experience. He is a former Treasurer of Queensland and is a prominent company director.

He has been Macarthur Coal Chairman since the company's public listing on 5 July 2001.

Keith was appointed to the Audit and Risk Management Committee on 18 February 2003 and the Nomination and Remuneration Committee on 13 June 2003.

Keith's appointments to boards of other publicly listed companies include Chairman of Trinity Limited from 14 December 2004 and Director of Reef Corporate Services Limited from 1 December 1999.

Keith is Chairman of Queensland Sugar Limited, Cubbie Group Ltd, Nimrod Resources Limited, and the Global Sugar Alliance.

In 2006, Keith was made a Member of the Order of Australia for service to Queensland. He also has honorary doctorates from both James Cook and Central Queensland universities.

Roger Marshall, OBE, 69

BE, MAusIMM, FAIM, FAICD
Deputy Chairman
Non-executive Director

Roger has extensive domestic and international coal industry experience covering management, marketing, finance and operational roles.

He has been Macarthur Coal's Deputy Chairman since 5 July 2001.

Roger was appointed to the Nomination and Remuneration Committee on 13 June 2003 and the Special Projects Committee on 11 August 2008.

Roger's appointments to boards of other publicly listed companies include Chairman of Queensland Ores Limited from 18 May 2005, Chairman of Southern Uranium Limited from 14 April 2007, director of CITIC Australia Trading Limited from 3 April 2002 and director of Copper Resources Corporation Ltd from 1 November 2005 to 4 June 2007.

Peter Forbes, 60

FCPA, FCIS, FAICD, SA Fin
Independent, non-executive Director

Peter has more than 30 years of 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 was appointed as a Macarthur Coal director on
14 November 2003.

Peter has been a member of the Audit and Risk Management Committee since 14 November 2003 and was appointed Chairman of the Committee on 16 August 2007. He was appointed to the Special Projects Committee on 16 August 2007.

Peter is a director of both Cubbie Group Ltd and QIC Private Capital Pty Ltd, and is a member of the Queensland Council of the Australian Institute of Company Directors (AICD).

Nicole Hollows, 37

BBus (Acctg), Grad Dip CSP, Grad Dip Adv Acctg (Dist), ACIS, CA, GAICD
Chief Executive Officer and Managing Director

Nicole was appointed Chief Executive Officer of Macarthur Coal in January 2007 and Managing Director in June 2007. Prior to this Nicole held the positions of Acting CEO, Deputy CEO and Chief Financial Officer.

Nicole joined the group in 1998 and was appointed Company Secretary and Chief Financial Officer of Macarthur Coal (C&M Management) Pty Ltd (then Australian Premium Coals Pty Ltd), the manager of the company's Coppabella and Moorvale coal mines in Queensland's Bowen Basin.

In 2007 Nicole was appointed to the Board of the Queensland Resources Council.

In her role, Nicole is responsible for the day-to-day management of all company operations and plays an integral role in the company's investigation of new emerging markets for its coal product and expansion plans to grow production. Nicole has more than 16 years of experience in the resources sector.

Chen Zeng, 44

BA (Economics), M International Finance, member Asia Society, member Australia China Business Council
Non-executive Director (appointed 23 July 2007)

Chen is the Managing Director of CITIC Australia, a company that is a long time shareholder, participant and investor in Macarthur Coal's coal ventures and shares a similar business philosophy.

Chen has over 19 years of experience managing a number of business operations, corporate and asset restructures and has developed several projects for the CITIC and CITIC Australia groups.

He is also a director of the China Chamber of Commerce in Australia, CITIC Australia Trading Limited (appointed as director on 3 April 2002, currently non-executive director and Chairman since 14 May 2004) and Marathon Resources Limited (appointed 27 December 2006). He was appointed an Executive Director of CITIC Resources Holdings Limited on 1 April 2004.

Chen was appointed as a Macarthur Coal director on 23 July 2007 and was appointed to the Special Projects Committee on 16 August 2007.

Don Nissen, 64 (resigned 7 June 2008)

FAIM, FAICD
Non-executive Director

Don has more than 42 years of experience in banking and finance including ten years as the Queensland General Manager for the Commonwealth Bank.

He was appointed as a Macarthur Coal director on 5 July 2001 and resigned on 7 June 2008.

Don was Chairman of the Audit and Risk Management Committee from 18 February 2003 until 16 August 2007 and was a member of the Audit and Risk Management Committee until his resignation in June 2008.

Don's appointments to boards of other publicly listed companies include Ariadne Australia Limited from 17 February 2001 to 18 March 2008 and Brisbane Broncos Limited from 16 November 1998 to 25 October 2004.

Ken Talbot, 58 (resigned 23 June 2008)

BE, ME, ASIA, FAICD, FAusIMM
Non-executive Director

Ken has 37 years of experience in the Australian coal industry, including five new mine developments.

Ken was the founder of Macarthur Coal. He has 21 years of experience as a Chief Executive Officer/Managing Director until his resignation as CEO in January 2007 and resignation as director on 23 June 2008.

Ken was a director of Queensland Resources Council from 2001 until 2007.

Ken has received a Centenary Medal in 2003, the Australian Export Heroes Award in 2006 and was named

the Ernst & Young Champion of Entrepreneurship for the Northern Region in 2006.

Ken was appointed to the Nomination and Remuneration Committee on 13 June 2003 and was appointed Chairman of the Special Projects Committee on 16 August 2007. He held these positions until his resignation in June 2008.

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Members of the Board and Executive Committee at a lookout at Coppabella Mine.

Executive Committee

Lisa Dalton, 44

BAppSc, MAppSc, LLB (Hons), GAICD
Company Secretary

Lisa joined Macarthur Coal having formerly held the position of Company Secretary at Tarong Energy. Lisa provides support to the Board and its committees, facilitates compliance with the corporate governance framework and coordinates risk and compliance management at Macarthur Coal.

Lisa began her career at Clayton Utz, has been corporate counsel and company secretary for an international biotechnology company, and was Principal Legal Officer in the Corporate Governance and Business Services Unit at Crown Law.

Stuart Hatton, 41

BCom, CAP, GAICD
Chief Financial Officer

Stuart was appointed to this position in August 2008 having previously held the position of CFO and General Manager Commercial Services at Aurora Energy in Tasmania. He is responsible for all financial aspects of the business including treasury, finance and financial reporting.

Stuart also has extensive commercial and finance experience in other corporations including as CFO and General Manager Finance & Commercial at Tarong Energy. He has also worked in the finance and commercial areas of BHP and Pasminco (now Nystar) and as an external auditor for KPMG.

Peter Kane, 43

BE (Mining), MAusIMM, MMAA, Certified Mine Manager
Chief Operating Officer

Peter was appointed to this position in February 2008 and is responsible for

overseeing all operational aspects of the company's business.

Peter has extensive experience in the mining industry in both iron ore and coal mining and has worked for such companies as BHP Iron Ore, BHP Australia Coal, Thiess and, most recently, Leighton Contractors.

Gary Lee, 53

BAppSc (Hons)
Vice President – Marketing

Gary was appointed in January 2004 and is responsible for the sales and marketing of all coal types from Coppabella and Moorvale mines. Gary has 30 years of coal industry experience in both technical and marketing roles.

He has extensive experience in international coal markets for both metallurgical and thermal coal.

Shane Stephan, 45

BBus (Dist), MBA (AGSM), MAusIMM, MAICD, Certified Mine Manager
Chief Development Officer

Shane was appointed as Chief Development Officer in December 2007 having previously held the position of Chief Financial Officer and before that, Vice President – Strategy and Corporate Development. Shane oversees corporate development, mergers and acquisitions, investor relations and the company's exploration program.

Shane has been with the company for over seven years and holds formal qualifications in banking and finance as well as mining engineering and management.

Shane has over 22 years of resource industry experience with 19 years of coal mining experience including senior line management roles, experience as the District Inspector of Mines in Queensland and as a member of the Coal Industry Health and Safety Advisory Council in Queensland. Shane was also previously employed as an executive in the structured and corporate finance divisions of an international investment bank.

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STRENGTHENING PRODUCTION : SECURING GROWTH

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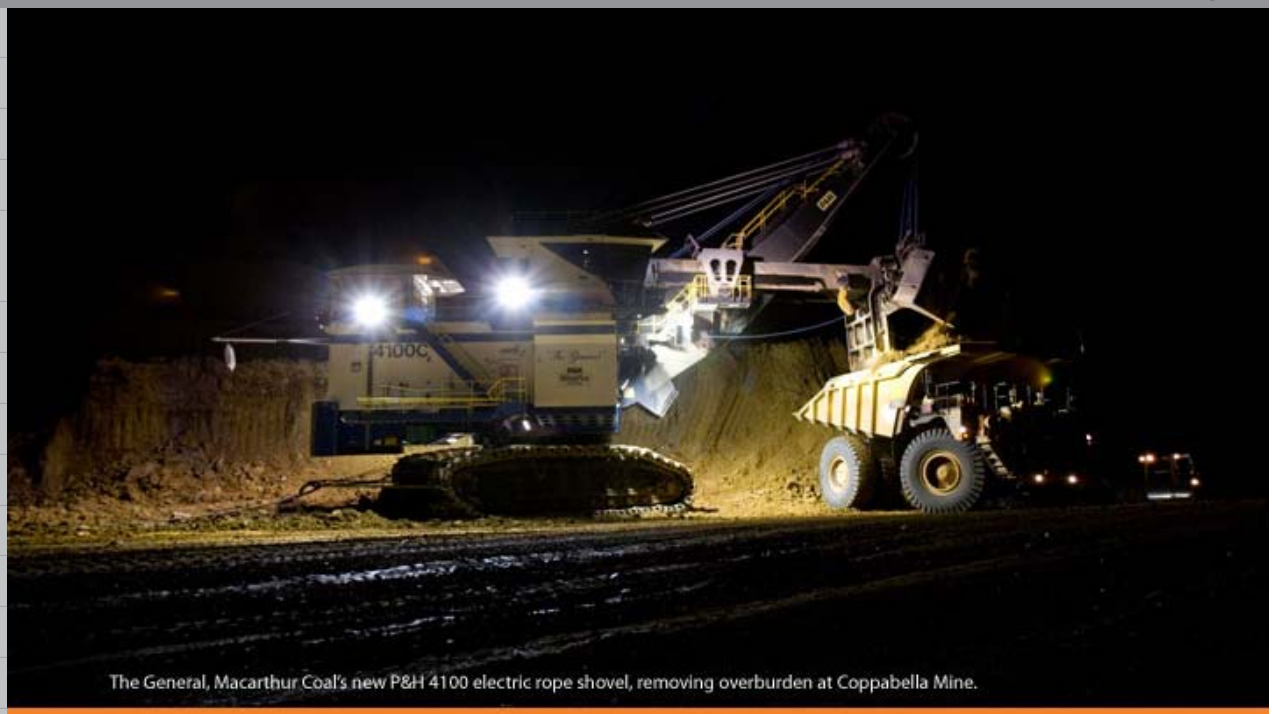

The General, Macarthur Coal's new P&H 4100 electric rope shovel, removing overburden at Coppabella Mine.

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Macarthur Coal's Board of Directors Chen Zeng, Nicole Hollows, Keith De Lacy, Roger Marshall, and Peter Forbes.

Board of Directors

1. DIRECTORS

Details of the directors of the company at any time during or since the end of the financial year are as follows:

Keith De Lacy, AM, 68

BA, HonDLitt, DUniv, QDA, FAICD, FAIM
Chairman
Independent, non-executive Director

Keith has extensive commercial experience. He is a former Treasurer of Queensland and is a prominent company director.

He has been Macarthur Coal Chairman since the company's public listing on 5 July 2001.

Keith was appointed to the Audit and Risk Management Committee on 18 February 2003 and the Nomination and Remuneration Committee on 13 June 2003.

Keith's appointments to boards of other publicly listed companies include Chairman of Trinity Limited from 14 December 2004 and Director of Reef Corporate Services Limited from 1 December 1999.

Keith is Chairman of Queensland Sugar Limited, Cubbie Group Ltd, Nimrod Resources Limited, and the Global Sugar Alliance.

In 2006, Keith was made a Member of the Order of Australia for service to Queensland. He also has honorary doctorates from both James Cook and Central Queensland universities.

Roger Marshall, OBE, 69

BE, MAusIMM, FAIM, FAICD
Deputy Chairman
Non-executive Director

Roger has extensive domestic and international coal industry experience covering management, marketing, finance and operational roles.

He has been Macarthur Coal's Deputy Chairman since 5 July 2001.

Roger was appointed to the Nomination and Remuneration Committee on 13 June 2003 and the Special Projects Committee on 11 August 2008.

Roger's appointments to boards of other publicly listed companies include Chairman of Queensland Ores Limited from 18 May 2005, Chairman of Southern Uranium Limited from 14 April 2007, director of CITIC Australia Trading Limited from 3 April 2002 and director of Copper Resources Corporation Ltd from 1 November 2005 to 4 June 2007.

Peter Forbes, 60

FCPA, FCIS, FAICD, SA Fin
Independent, non-executive Director

Peter has more than 30 years of 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 was appointed as a Macarthur Coal director on
14 November 2003.

Peter has been a member of the Audit and Risk Management Committee since 14 November 2003 and was appointed Chairman of the Committee on 16 August 2007. He was appointed to the Special Projects Committee on 16 August 2007.

Peter is a director of both Cubbie Group Ltd and QIC Private Capital Pty Ltd, and is a member of the Queensland Council of the Australian Institute of Company Directors (AICD).

Nicole Hollows, 37

BBus (Acctg), Grad Dip CSP, Grad Dip Adv Acctg (Dist), ACIS, CA, GAICD
Chief Executive Officer and Managing Director

Nicole was appointed Chief Executive Officer of Macarthur Coal in January 2007 and Managing Director in June 2007. Prior to this Nicole held the positions of Acting CEO, Deputy CEO and Chief Financial Officer.

Nicole joined the group in 1998 and was appointed Company Secretary and Chief Financial Officer of Macarthur Coal (C&M Management) Pty Ltd (then Australian Premium Coals Pty Ltd), the manager of the company's Coppabella and Moorvale coal mines in Queensland's Bowen Basin.

In 2007 Nicole was appointed to the Board of the Queensland Resources Council.

In her role, Nicole is responsible for the day-to-day management of all company operations and plays an integral role in the company's investigation of new emerging markets for its coal product and expansion plans to grow production. Nicole has more than 16 years of experience in the resources sector.

Chen Zeng, 44

BA (Economics), M International Finance, member Asia Society, member Australia China Business Council
Non-executive Director (appointed 23 July 2007)

Chen is the Managing Director of CITIC Australia, a company that is a long time shareholder, participant and investor in Macarthur Coal's coal ventures and shares a similar business philosophy.

Chen has over 19 years of experience managing a number of business operations, corporate and asset restructures and has developed several projects for the CITIC and CITIC Australia groups.

He is also a director of the China Chamber of Commerce in Australia, CITIC Australia Trading Limited (appointed as director on 3 April 2002, currently non-executive director and Chairman since 14 May 2004) and Marathon Resources Limited (appointed 27 December 2006). He was appointed an Executive Director of CITIC Resources Holdings Limited on 1 April 2004.

Chen was appointed as a Macarthur Coal director on 23 July 2007 and was appointed to the Special Projects Committee on
16 August 2007.

Don Nissen, 64 (resigned 7 June 2008)

FAIM, FAICD
Non-executive Director

Don has more than 42 years of experience in banking and finance including ten years as the Queensland General Manager for the Commonwealth Bank.

He was appointed as a Macarthur Coal director on 5 July 2001 and resigned on 7 June 2008.

Don was Chairman of the Audit and Risk Management Committee from 18 February 2003 until 16 August 2007 and was a member of the Audit and Risk Management Committee until his resignation in June 2008.

Don's appointments to boards of other publicly listed companies include Ariadne Australia Limited from 17 February 2001 to 18 March 2008 and Brisbane Broncos Limited from
16 November 1998 to 25 October 2004.

Ken Talbot, 58 (resigned 23 June 2008)

BE, ME, ASIA, FAICD, FAusIMM
Non-executive Director

Ken has 37 years of experience in the Australian coal industry, including five new mine developments.

Ken was the founder of Macarthur Coal. He has 21 years of experience as a Chief Executive Officer/Managing Director until his resignation as CEO in January 2007 and resignation as director on 23 June 2008.

Ken was a director of Queensland Resources Council from 2001 until 2007.

Ken has received a Centenary Medal in 2003, the Australian Export Heroes Award in 2006 and was named the Ernst & Young Champion of Entrepreneurship for the Northern Region in 2006.

Ken was appointed to the Nomination and Remuneration Committee on 13 June 2003 and was appointed Chairman of the Special Projects Committee on 16 August 2007. He held these positions until his resignation in June 2008.

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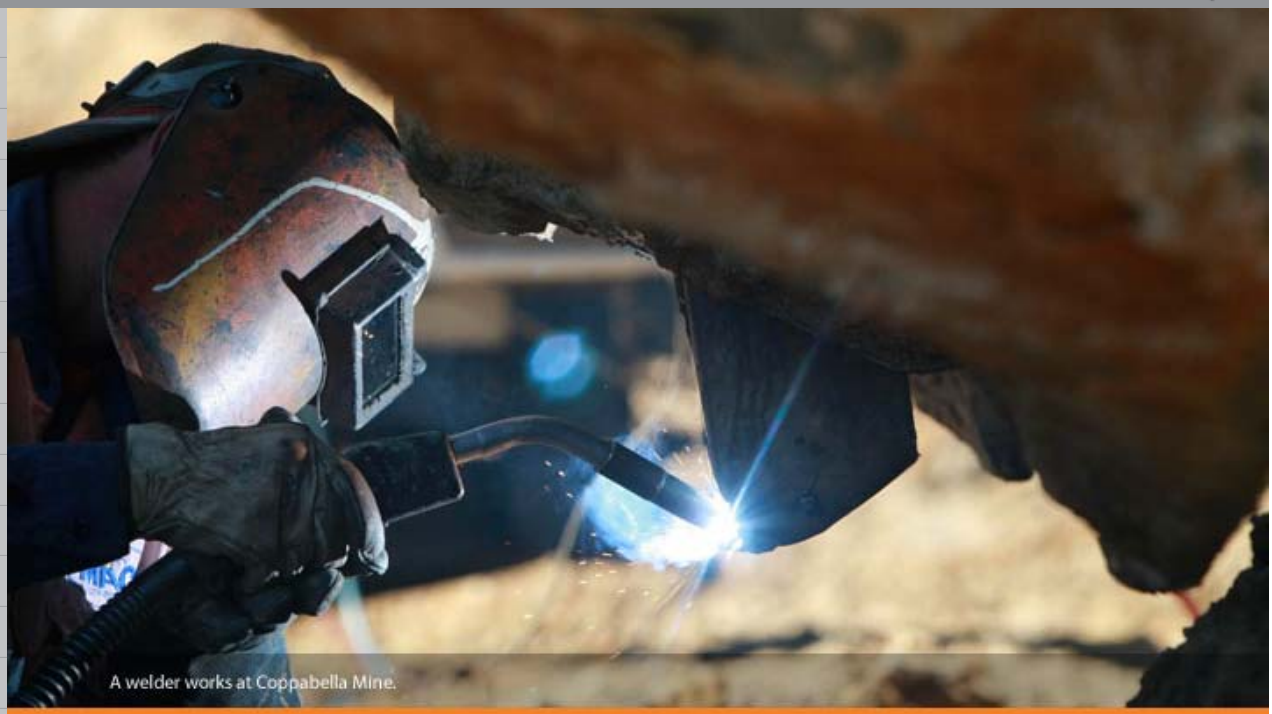

A welder works at Coppabella Mine.

Directors' Report

2. COMPANY SECRETARY

Lisa Dalton B App Sc, M App Sc, LLB (Hons), GAICD, was appointed Company Secretary on 24 May 2007. Lisa joined Macarthur Coal having formerly held the position of Company Secretary at Tarong Energy Corporation Limited. Lisa provides support to the Board and its committees, facilitates compliance with the corporate governance framework and is responsible for legal services and human resources services.

Lisa began her career at Clayton Utz, has been corporate counsel and company secretary for an international biotechnology company and was Principal Legal Officer in the Corporate Governance and Business Services Unit at Crown Law.

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The CHPP and coal stockpile at Moorvale Mine.

Directors' Report

3. DIRECTORS' MEETINGS

The number of directors' Board and committee meetings and respective attendance during the financial year is detailed in the table below.

	Board Meetings		Audit and Risk Management Committee Meetings		Nomination and Remuneration Committee Meetings		Special Projects Committee Meetings	
	A	B	A	B	A	B	A	B
Keith De Lacy	22	22	5	6	2	2	*	*
Roger Marshall	20	22	*	*	2	2	*	*
Don Nissen	16	19	6	6	*	*	*	*
Peter Forbes	22	22	6	6	*	*	6	6
Ken Talbot	15	21	*	*	1	2	4	6
Chen Zeng	21	21	*	*	*	*	5	6
Nicole Hollows	21	22	*	*	*	*	*	*

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

Mr Don Nissen requested and was given a leave of absence from the Board on 20 May 2008 and subsequently resigned on 7 June 2008.
Mr Ken Talbot requested and was given a leave of absence from the Board on 21 May 2008 and subsequently resigned from the Board on 23 June 2008.

* Not a member of the relevant committee.

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The pit at Moorvale Mine.

Directors' Report

4. BOARD AND MANAGEMENT STRUCTURE

The Board has established three Board committees to help it oversee the management of the company. The corporate governance statement which provides details of the governance framework and practices is set out here.

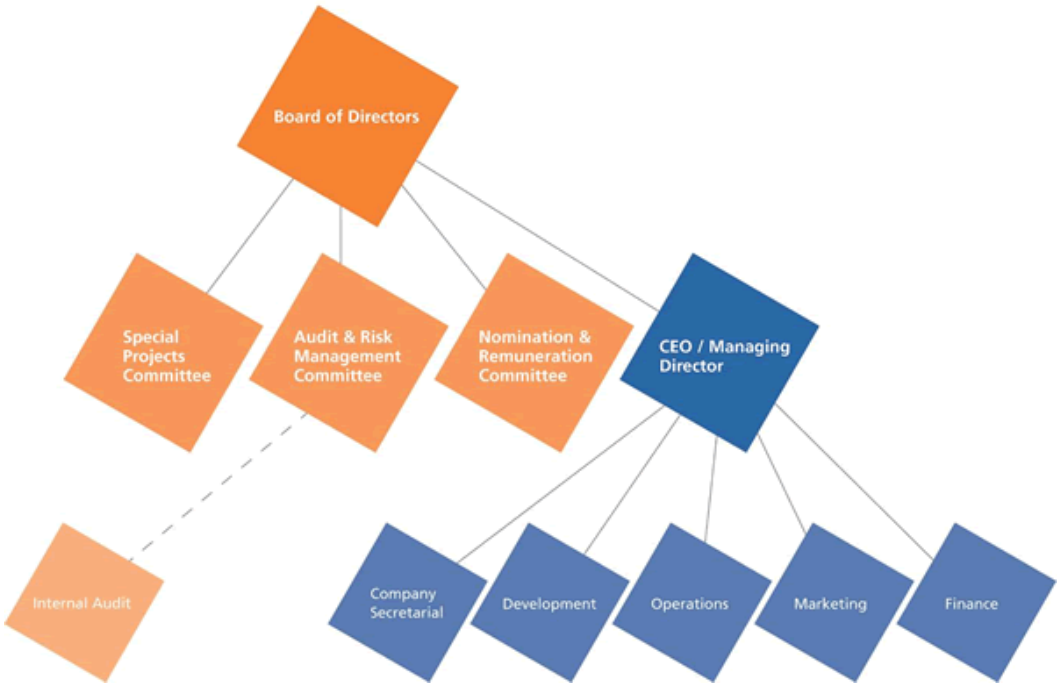
With the move to owner operator at Coppabella Mine and the growth in the size of the company, it became increasingly necessary to restructure the management systems at Macarthur Coal in order to ensure efficient day-to-day operations while still maintaining the ability to place the required emphasis on strategic management and plans for the future.

During the year, the management structure was streamlined to create a senior executive group reporting directly to the CEO. The direct report group is comprised of the Company Secretary, Chief Development Officer, Chief Financial Officer, Vice-President Marketing, and Chief Operating Officer. This reduced the number of direct reports to the CEO thus enabling her to focus on strategic management.

The position of Chief Operating Officer is a new position, created during the year, and this person is accountable for managing all operational aspects of the company safely and within the specific targets set by the Board.

The Internal Audit function is outsourced. Internal Auditors attended the majority of meetings of the Audit and Risk Management Committee to report on internal audit activities undertaken during the quarter.

MACARTHUR COAL LIMITED MANAGEMENT STRUCTURE



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Kirk Henderson, Geologist, and Annette Fraser, Communications Officer, next to a coal seam at Coppabella Mine.

Directors' Report

5. CORPORATE GOVERNANCE STATEMENT

The foundation of our approach to corporate governance is our Four Pillars: Lead the Way, Value People, Talk Straight and Work Together. These values underpin our activities and business decisions and the way we interact with each other, our shareholders and the community in which we operate.

The Board and executive management of Macarthur Coal are committed to corporate governance practices which reflect the expectations of shareholders, the market and regulators and which ensure transparent oversight of the company's operations and performance. Through the company's corporate governance framework, the Board, CEO and Executive Committee (ExCo) aim to encourage the creation of shareholder value through entrepreneurial approaches to innovation, development and exploration.

Macarthur Coal has elected to report against the Second Edition of the ASX Corporate Governance Council's Principles for Good Corporate Governance (the "Principles") in advance of the requirement of the ASX. Corporate Governance practices remain under constant review with the Board, CEO and ExCo; the overall objective being to ensure accountability and transparency in the management of the company.

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Graduate Engineer, Daniel Ross.

Directors' Report

5.1 Compliance with the Principles

Set out below is a summary of the company's self-assessment against the Principles:

Click the tables below to zoom.

Principle 1: The Board and Management are clear about their roles and responsibilities.	
1.1 We have established clear delegations of authority between the Board and management.	✓
1.2 A review of senior executive remuneration took place in the reporting period. The remuneration report on page 41 describes the principles and process followed.	✓
1.3 There have been no departures from Principle 1. Our website www.macarthurcoal.com.au contains links to our Board Charter, Directors Code of Conduct and a summary of our Delegation of Authority Policy.	✓

Principle 2: Collectively, the Board's experience in relevant facets of mining and business ensures that it adds value to the company. A majority of the Board, however, is not independent. There are plans to appoint two independent non-executive directors to the Board.	
2.1 The majority of the Board (at the date of this report) is not independent.	✗
2.2 The Chairman is an independent director.	✓
2.3 The Chairman and the CEO are different individuals.	✓
2.4 The company has an active Nomination and Remuneration Committee (NRC). The NRC, however, does not have a majority of independent directors.	^
2.5 No formal evaluation of the performance of the Board, its committees or individual directors took place in the reporting period and the reasons for this are explained on page 27.	^
2.6 All the information set out in the Guide to Reporting Principle 2 has been provided in this report.	✓

Principle 3: Macarthur Coal promotes ethical and responsible decision making by its directors and staff and uses a number of tools to ensure this happens including: **• Constantly referring to the Four Pillars for guidance when making decisions, communicating and interacting between ourselves and with our stakeholders** **• Ensuring codes of conduct for directors and employees are in place and regularly referred to** **• Being clear and regularly communicating the company's expectation about the trading in the company's shares by directors, executives and employees.**	
3.1 Our codes of conduct for our employees and our directors apply without exception to directors and employees and are clear on the company's expectations. They also set out the process for reporting and investigating reports of unethical behaviour.	✓
3.2 Our Share Trading Policy has been enhanced during the year and a re-education program has taken place for all directors and employees. Internal reviews to monitor compliance with the Share Trading Policy are also incorporated into our governance framework.	✓
3.3 Our Codes of Conduct and Share Trading Policy are made available to our staff through the intranet and are also accessible on our website at www.macarthurcoal.com.au.	✓

Principle 4: We believe our systems and controls independently verify and safeguard the integrity of our financial reporting.	
4.1 We have an Audit and Risk Management Committee (ARMC) that met six times during the year.	✓
4.2 The ARMC had three non-executive members for each meeting during the year and consists of a majority of independent directors. It is chaired by Peter Forbes, an independent, non-executive director, who is also a qualified accountant with experience in financial monitoring and reporting. Peter Forbes is not the Chair of the Board.	✓
4.3 The ARMC operates under a formal charter approved by the Board which was also reviewed and enhanced during the year so that the ARMC now plays a more involved role in monitoring material business risks and reporting on these to the Board. A copy of the ARMC charter is available on our website at www.macarthurcoal.com.au.	✓
4.4 Details of membership of and attendance at meetings of the ARMC including the number of meetings have been provided on page 20.	✓

Principle 5: Timely and balanced communication with our staff and our stakeholders is integral to our business.	
5.1 Our Continuous Disclosure Policy which details clear procedures to be followed, including accountability for compliance with ASX Listing Rules is in place. Shareholders and staff are provided with quarterly, half-yearly and annual reports.	✓
5.2 A summary of our Continuous Disclosure Policy is available on our website at www.macarthurcoal.com.au.	✓

Principle 6: We strive to ensure communication with our shareholders is timely and presented in a clear manner.	
6.1 Our Shareholder Communication Policy forms the minimum standards acceptable for communication with our shareholders. Shareholders are provided with quarterly, half-yearly and annual reports. Our primary communication tool is our website which is updated regularly with company announcements and news.	✓
6.2 A summary of how we communicate publicly with our shareholders is provided on page 31 and is also available on our website at www.macarthurcoal.com.au.	✓

Principle 7: Our Risk Management Framework ensures risk management is embedded in our day to day decision making.	
7.1 A written, Board-approved, risk management policy and framework requires that Macarthur Coal's activities be undertaken within Board-approved risk tolerance levels to protect profitability and assets.	✓
7.2 The Board has received a report from management on the material business risks facing the business, the process undertaken to identify and assess those risks, each risk's mitigation plan and the monitoring regime in place.	✓
7.3 The Board has also received assurances in writing from the CEO and Interim CFO that the financial reporting risks and associated internal controls are operating effectively in all material respects.	✓
7.4 There have been no departures from Principle 7 and a summary of our Risk Management Policy and Framework is available on our website at www.macarthurcoal.com.au.	✓

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Conveyor belt and product stockpile at Moorvale Mine.

Directors' Report

5.2 Solid Foundations for Management and Oversight

The Board and Management are clear about their roles and responsibilities.

5.2.1 The Board

The Board's primary role is to protect and enhance long-term shareholder value. Our Board Charter documents the roles and responsibilities of the Board, the Chairman, the CEO, the CFO and the Executive Committee.

The Board has established three board committees:

The Audit and Risk Management Committee – see here for details on this Committee's function and membership

The Nomination and Remuneration Committee – see here for details on this Committee's function and membership

The Special Projects Committee – see here for details on this Committee's function and membership.

During the year a Takeover Committee was also established during the year consisting of the two independent non-executive directors, Mr De Lacy and Mr Forbes, and the Managing Director, Ms Hollows. The Committee managed the day-to-day activity related to the potential change of control transactions during the latter part of the 2008 financial year. It met frequently but was not provided with any delegated authority from the Board.

The Board has responsibility for the effective oversight of Macarthur Coal and guiding and monitoring the company's activities to ensure proper management and constant improvement.

5.2.2 The Board's Role

Specifically the Board has responsibility for:

Area	Oversight
Strategy	approving, evaluating and monitoring strategy, its implementation and measurement of key performance indicators

Business Performance	approving and overseeing major expenditure, acquisitions/divestments and business operations
Leadership	evaluating the performance of non-executive directors, determining the size and composition of the Board and its committees and making recommendations to shareholders on director appointment and retirement
	monitoring and managing the performance of the CEO and succession planning for the CEO
	approving the appointment/removal of executive management
Remuneration	recommending director remuneration to shareholders for approval
	setting CEO remuneration and monitoring executive remuneration within Board-approved remuneration policy limits
Financial Performance & Reporting	approving all half-yearly and annual financial reports
	evaluating, approving and monitoring annual budgets
Safety & Environmental Management	monitoring safety and environmental performance and ensuring appropriate resources are available to meet environmental and workplace health and safety management plans
Risk Management	reviewing with management how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategy direction should be adopted
	overseeing mitigation plans for the company's material business risks
	approving and monitoring compliance with the company's internal control system including internal and external audit

5.2.3 The Special Projects Committee

The Special Projects Committee operates under a Board-approved charter, a copy of which is available on our website at www.macarthurcoal.com.au. The Committee is responsible for reviewing, analysing and providing guidance to management on special projects that may arise from time to time. This includes providing guidance and recommendations during pre-feasibility and feasibility stages of various projects and overseeing due diligence processes prior to recommendations being made to the Board for approval of a special project.

The Committee comprised the following directors during the 2008 financial year:

- Ken Talbot – Chairman and non-executive director (resigned 23 June 2008)
- Peter Forbes – non-executive director
- Chen Zeng – non-executive director.

The CEO and Chief Development Officer attend the Special Projects Committee meetings by invitation.

Mr Roger Marshall, non-executive director, was appointed to the Special Projects Committee on 11 August 2008 as a replacement for Mr Talbot.

5.2.4 The Executive Committee

The Executive Committee (ExCo) provides leadership to Macarthur Coal.

The role of the ExCo is to demonstrate leadership by operating as a team; providing support to and working with the CEO to ensure the effective implementation and communication of strategies, business plans, projects and policies as approved by the Board.

ExCo is responsible for the following:

- determining business priorities (Top Five) for Board approval
- completing the company's Top Five key priorities for the current and next month on a rolling basis
- implementing business priorities and monitoring
- outcomes achieved
- managing principal and major business issues as they arise
- monitoring the material business risk register and ensuring execution of risk mitigation plans
- monitoring safety and environmental issues and trends
- ensuring cross-business unit communication

- supervising projects/activities with corporate-wide impacts and ensuring outcomes are achieved
- analysing business opportunities and recommending potential courses of action to the Board
- approving corporate-wide policies and procedures that do not require Board approval
- monitoring community relations activities
- ensuring ongoing development of culture and reinvigorating our Four Pillars/values.

Further details of individual directors and the Board's responsibilities are provided in the company's Board Charter and Directors on the Directors page.

Code of Conduct available on the company's website at www.macarthurcoal.com.au.

5.2.5 CEO and Senior Executive Performance

The performance of the CEO and senior executives is continually assessed with a formal one-on-one review undertaken every six months. The process for evaluating the performance of the CEO and senior executives and the outcomes of the reviews conducted during the financial year and any departures from the process are set out in the Remuneration Report.

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An Emergency Response Team made up of employees undergoes a fire training session at Coppabella Mine.

Directors' Report

5.3 Structuring the Board to Add Value

Collectively, the Board's experience in relevant facets of mining and business ensures that it adds value to the company. A majority of the Board, however, is not independent. There are plans to appoint two independent non-executive directors to the Board.

Details of the directors of the company and their tenure are set out here.

5.3.1 Independence

Collectively, the directors' experience, which includes coal mine operations, project development, corporate governance, capital markets, banking, finance, government, marketing and dealing with Asian markets, ensures that the Board is structured to add value to the company.

Two non-executive directors of the Board resigned in June of this year. Prior to this, and for the majority of the year, the Board comprised seven directors; six non-executive directors and one executive director. The current board has four non-executive directors and one executive director. At the date of this report, selection of two independent non-executive directors was underway.

The Board has reviewed the independent status of the Board and has determined that throughout the year and as at 30 June 2008, the majority of the directors are not independent:

- two of the directors, Mr De Lacy (Chairman) and Mr Forbes (Chairman of the ARMC), are independent directors giving the Board access to independent and unfettered judgement
- Mr Marshall has been a non-executive director since the company listed in 2001 and, despite not strictly meeting the criteria for independence because of his relationship with CITIC (the company's largest shareholder) and a consulting agreement with the company (which ended on 31 December 2007), in the Board's view, he retains a strong independence of mind and attitude.
- Mr Zeng is the representative of the largest shareholder in the company and, although retaining a strong independence of mind and attitude, does not meet the criteria of independence set out in the Principles.

Although the Board does not believe that the decision-making capacity of the Board is compromised because of its lack of independence, the resignations of Mr Nissen and Mr Talbot provided an opportunity for the Board to undertake an assessment of both the Board's composition and size and the directors' skills, expertise and competence in the context of the company's strategic objectives and material business risks.

The review identified:

- the size of the Board, which should be a minimum of seven directors with the majority (at least four) being independent
- the skills and expertise required for potential new directors. Under the guidance of the NRC, a wide base of potential directors has been sourced. Nominated directors will then be assessed by the Board against criteria such as background, experience, skills, availability and personal qualities.

If a new director is appointed by the Board during the year, that person stands for election by shareholders at the next AGM.

Our constitution states that at each AGM one-third of its directors (excluding the CEO) and any director who has held office for three or more years since their last election must retire. Eligible directors who retire by rotation may offer themselves for re-election by shareholders at the next AGM.

To facilitate independent judgement and thinking by directors, all directors, at the company's expense and with the consent of the Chairman, may obtain independent advice concerning any aspect of Macarthur Coal's operations from time to time.

The Chairman may determine that any advice received by an individual director will be circulated to the remainder of the directors.

5.3.2 Nomination and Remuneration Committee (NRC)

The NRC has responsibility for ensuring that the Board comprises individuals best able to discharge their responsibilities as directors and that director remuneration arrangements are equitable and transparent.

5.3.3 NRC Director-Related Functions

The Committee operates under a Board-approved charter and has responsibility for the following nomination functions:

- determining the skills and competencies necessary for the efficacy of the Board
- establishing guidelines for the evaluation of the Board and its individual members
- identifying suitable candidates for appointment to the Board
- recommending the appointment or removal of directors
- selecting and overseeing the appointment of the company's CEO.

The Committee comprised the following directors during the 2008 financial year:

- Keith De Lacy – Chairman, independent, non-executive director
- Roger Marshall – non-executive director
- Ken Talbot – non-executive director (resigned 23 June 2008).

At the date of this report, Mr Talbot's position on the NRC has not been filled. Committee membership will be reviewed when new independent directors are appointed. It is the intention that the NRC has a majority of the independent directors.

The Committee met twice during the financial year. Attendance is detailed in the table of directors' meetings.

5.3.4 Director Appointment

Directors, upon consenting to become a director, receive a letter of appointment from the company which includes information such as their term of appointment and remuneration structure, the company's codes of conduct and policies, indemnity and insurance arrangements, and continuing education arrangements. In addition, an induction program is tailored to meet the newly-appointed director's needs.

5.3.5 Board, Committee and Director Evaluations

An extensive evaluation of the Board was undertaken in June 2007. This year, the normal Board evaluation period (May to July) was characterised by merger and acquisition activity and uncertainty about the ongoing tenure/composition of the Board. During this period, two directors, Don Nissen and Ken Talbot, resigned. For this reason, no formal evaluation was conducted during the year. An evaluation of the Board and its sub-committees will be undertaken in 2009.

5.3.6 NRC Executive Related Functions

The Board has established and has delegated its authority to the NRC to approve remuneration increases and short term incentives (both Key Performance Indicators (KPIs) for future years and assessment of current year's performance) for senior executives. Remuneration increases and KPIs for the CEO are assessed by the Chairman, recommended by the NRC and approved by the Board.

Full details on the remuneration paid to the non-executive directors, the CEO and the key management personnel are outlined here.

5.3.7 2009 Objectives

- Document and make publicly available the Board's policy for the selection and appointment of new directors and the re-election of incumbents, including the number of terms a director can serve
- Have a majority of the Board as independent non-executive directors
- Undertake a Board, Committee and Director Evaluation.

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Maintenance Supervisor, Frank Tate, is in charge of equipment maintenance at Coppabella Mine.

Directors' Report

5.4 Ethical and Responsible Decision Making

Macarthur Coal promotes ethical and responsible decision making by its directors and staff and uses a number of tools to ensure this happens including:

- constantly referring to the Four Pillars for guidance when making decisions, and when communicating and interacting between ourselves and with our stakeholders
- ensuring codes of conduct for directors and employees are in place and regularly referred to
- being clear and regularly communicating the company's expectation when directors, officers and employees trade in the company's shares.

5.4.1 Ethical Standards

All directors and employees are expected to adhere to certain basic principles in all activities in recognition of the fact that Macarthur Coal's reputation is an essential element of its success.

The ethical requirements for directors and employees are contained in the company's Corporate Code of Conduct and Directors Code of Conduct. In addition, the company has a Fraud and Corruption Policy, the objective of which is to protect the revenue, property, information and other assets of the company from any attempt – either by members of the public, contractors or its own employees – to gain by deceit, financial or other benefits.

The codes and the Fraud and Corruption Policy are made available to directors and all staff. New employees and directors are made aware of their obligations as part of their induction process.

5.4.2 Corporate Code of Conduct

The Corporate Code of Conduct applies without exception and sets out the standards to which directors and employees will adhere in conducting business, including:

- commitment to shareholders
- compliance with the law
- environmental protection
- occupational health and safety

- equal employment
- confidentiality
- conflict of interest
- general conduct
- reporting unethical behaviour.

All employees received refresher training on the Corporate Code of Conduct throughout the year and were asked to sign compliance certificates and disclose any issues they were aware of that could impact the application of the Code to management practices.

The Corporate Code of Conduct is accessible by all staff through our intranet and can be accessed on the company's website at www.macarthurcoal.com.au.

5.4.3 Directors Code of Conduct

The Directors Code of Conduct, provided to directors during their induction, sets out the principles that apply to directors in addition to those stipulated in the Corporate Code of Conduct, including:

- behaviour that serves the best interests of Macarthur Coal
- exercise of care and diligence
- proper use of information
- declarations and protocol for managing conflicts of interest
- full and frank disclosure of potential or actual conflicts of interest
- enquiring, open and independent processes at meetings
- maintenance of confidentiality
- avoidance of any activity which could bring Macarthur Coal into disrepute
- adherence to all corporate governance policies
- devotion of sufficient time to execute duties
- compliance with the spirit as well as the letter of all laws
- trading in company securities in accordance with the company's Share Trading Policy.

The Directors Code of Conduct can be accessed on the company's website at www.macarthurcoal.com.au.

5.4.4 Conflicts of Interest

Directors declare any personal material interest to the Board as it arises to provide the Board with 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. Decisions related to the matter creating the conflict are determined in the absence of the affected director. Notices of material personal interests are documented in the minutes. Details of director-related entity transactions with Macarthur Coal are set out in Note 38 to the financial statements.

5.4.5 Trading in General Company Securities by Directors and Employees

Macarthur Coal encourages ownership of company shares by directors, employees and contractors as a means of aligning their interests with shareholders' interests. However, trading in the company's securities is to occur only in accordance with the company's Share Trading Policy, common law, the *Corporations Act 2001*, and the ASX Listing Rules.

The company's Share Trading Policy was enhanced during the year to:

- succinctly inform directors, employees and contractors of the permissible trading windows, thus minimising the risk of securities being traded by a director, employee or contractor when in possession of price-sensitive information that is not in the public domain
- clarify the company's position on directors entering into margin lending arrangements in respect of shares in the company
- prohibit directors and employees from hedging the economic risk of a holding in unvested shares in the company.

Key elements of the policy are:

- an explanation of the need for a Share Trading Policy
- details of permissible and prohibited trading periods

- details of who to contact to seek approval should anemployee, director or contractor wish to trade shares outside the trading window
- an explanation of what constitutes price-sensitive information.

The Share Trading Policy requires directors, employees and contractors to inform the Company Secretary of any trading in company securities, whether conducted personally, through a family member, through a trust, or through a company in which they have any influence or control.

5.4.6 Fraud and Corruption Policy

Macarthur Coal operates with a zero tolerance to fraud and corruption. The policy requires management to institute and maintain a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities. Internal audit has the primary responsibility for the investigation of all fraudulent or corrupt activity. The policy also details a procedure for reporting and investigating possible fraudulent or corrupt activity.

5.4.7 2009 Objective

An internal review of fraud risk will be undertaken in 2009 and a staff refresher on fraud and corruption and the whistleblower provisions of the policy will be carried out and will include practical examples of different scenarios.

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Boilermaker, Sam Mifsud, in the maintenance workshop.

Directors' Report

5.5 Integrity in Financial Reporting

We have systems and controls to independently verify and safeguard the integrity of our financial reporting.

5.5.1 Audit and Risk Management Committee (ARMC)

The ARMC oversees financial reporting, risk management and disclosure practices consistent with the corporate governance framework. The Committee's members are:

- Peter Forbes – Chairman, independent, non-executive director
- Keith De Lacy – independent, non-executive director
- Don Nissen – non-executive director (resigned 7 June 2008).

The Committee met six times during the year. Details of attendance are provided here. Mr Nissen's position on the Committee is yet to be filled, however, it is the Board's intention that the replacement will be an independent non-executive director.

The ARMC operates in accordance with the ARMC Charter approved by the Board, a copy of which is available on the company's website at www.macarthurcoal.com.au. The Charter includes information on the composition of the Committee, removal or resignation of Committee members, meeting frequency, reporting to the Board, duties and responsibilities, and reviewing performance.

5.5.2 ARMC Function

The Committee has responsibility for:

- the adequacy and efficacy of the accounting system
- the appropriateness and consistency of accounting policies with Australian Accounting Standards (including Australian Accounting Interpretations)
- the integrity and quality of external financial reporting
- the independence, objectivity, scope and quality of external audits. KPMG were appointed auditors on 22 June 2001 and Macarthur Coal's engagement partner changed at the beginning of 2007 demonstrating Macarthur Coal's adherence to the principle of rotating audit engagement partners every five years

- assessment as to whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. At the end of each reporting period the external auditor provides a declaration of independence in relation to the audit or half year review
- provision of advice to the Board regarding the non-audit services performed by the external auditor and compatibility with the general standard of independence of auditors imposed by the *Corporations Act 2001*
- the review and monitoring of related party transactions and compliance with director-related party transaction regulations
- evaluation of the corporate risk assessment processes and the adequacy of the internal control framework
- evaluation of the performance and objectivity of the internal audit function. Ernst & Young provide internal audit services
- management of any outstanding matters with auditors, the Australian Taxation Office (ATO), Australian Securities and Investments Commission (ASIC), ASX and financial institutions.

The Committee has unrestricted access to employees, the external and internal auditors and appropriate external advisors. The external auditor is provided with the opportunity to meet with the Committee without senior management being present to ensure that issues can be discussed in an uninhibited manner.

The CEO, CFO and the Financial Controller attended Committee meetings at the invitation of the Committee.

The external auditor, KPMG, attended two meetings at the Committee's invitation. The internal auditor, Ernst & Young, also attended four meetings at the Committee's invitation. The internal and external auditors attend meetings to present outcomes of their audits to the Committee.

5.5.3 External Audit

The selection and appointment process for the external auditor is the responsibility of the Committee. When a vacancy occurs, the Committee will meet and determine whether a replacement auditor should be selected by way of a formal tender or some other appropriate method.

The Committee:

- recommends a preferred external auditor to the Board. If the Board thinks fit, it will appoint the recommended external auditor. The appointment of an external auditor is subject to ratification by shareholders at the next annual general meeting
- reviews the external auditor's performance annually. The review will include obtaining feedback from the CFO and other members of senior management regarding the quality of the audit service
- ensures that the external auditor has arrangements in place for the rotation of the audit engagement partner. The audit engagement partner for the audit must rotate every five years.

The detailed procedure that the ARMC follows for selection of the external auditor is set out in the ARMC's Charter.

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The dragline at Coppabella Mine.

Directors' Report

5.6 Timely and Balanced Disclosures

Timely and balanced communication with our staff and our stakeholders is integral to our business.

5.6.1 Continuous Disclosure

The company has a Continuous Disclosure Policy that aids Macarthur Coal in fulfilling its reporting obligation to provide investors with information in the manner expected of listed companies to enable investors to make an informed assessment of the value of the company's securities.

The Policy:

- enables Macarthur Coal to balance the information needs of investors with the company's needs to achieve business goals and protect confidential or commercially sensitive information, in a disciplined way and consistently with its legal obligations
- defines the parameters of disclosure to manage investor expectations and minimise the potential for positive or negative surprises
- provides a disciplined approach to disclosure to achieve consistent disclosure levels 'in good times and bad' and thereby enhance Macarthur Coal's credibility
- ensures information for investors is easy to understand and accurate at all times.

All Macarthur Coal employees, particularly the ExCo group, are aware of the Continuous Disclosure Policy, the importance of compliance and the need for all employees to ensure that Macarthur Coal management is to be made aware of any information which may need to be disclosed to the ASX. Refresher training on this policy was undertaken during the year.

The Company Secretary is informed immediately of any matters which have the potential to influence Macarthur Coal's share price or are required to be released to the market.

The Company Secretary must immediately provide the information to the CEO (or if not available, the Chairman) who will decide whether the information provided requires disclosure. If considered appropriate, the CEO may consult with the Chairman and other available directors in making a decision.

5.6.2 Relevant Interests of Directors

The company has disclosure deeds in place with all of its directors to ensure directors disclose changes in their relevant interests in a timely manner to facilitate the company's compliance with the Listing Rules.

In addition, a standing item has been added to every Board agenda to prompt disclosure of changes to relevant or material personal interests.

5.6.3 2009 Objective

Enhancement and implementation of our Stakeholder Communication Plan.

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Chief Operating Officer, Peter Kane.

Directors' Report

5.7 Respecting the Rights of Shareholders

We strive to ensure communication with our shareholders is timely and presented in a clear manner.

5.7.1 Shareholder Communication

The company takes its obligations to communicate with shareholders seriously and is committed to monitoring and improving communication. The Shareholder Communication Policy was established to ensure that shareholders are provided with timely, balanced communication that is written in plain language.

Shareholder communication is conducted in accordance with the company's Continuous Disclosure Policy, the ASX Listing Rules and the *Corporations Act 2001*.

The Executive General Manager - Corporate Development and Investor Relations has been appointed to deal with shareholder queries, whether in person, via telephone, email or post.

Principally, the company communicates with shareholders in the following ways:

5.7.2 ASX Announcements

Information with the potential to affect the price or value of the company's securities or to influence an investor's decision to trade in the company's securities is released to the ASX and then placed on Macarthur Coal's website. Selective or differential disclosure is precluded thereby ensuring that no individual or group benefits from possession of market sensitive information.

The company made 45 ASX announcements during the year, including quarterly, half-yearly and annual reports. The major announcements were:

DATE	ANNOUNCEMENT
2 July 2007	**MCC Supports CITIC's increased shareholding** The company announced its support for the increased stake in the company taken up by CITIC Australia Coal Pty Ltd from 11.62 % to 19.9%.
23 July	**Appointment of Chen Zeng to Board**

2007	The Board announced the appointment of Mr Chen Zeng to the Board as a non-executive director.
20 August 2007	**Redundancies at Coppabella Mine** Macarthur Coal confirmed that the mining contractor for Coppabella, Downer EDI Mining, was reducing its staff and subcontractor numbers at the mine in preparation for Macarthur Coal taking over operations at Coppabella.
2 October 2007	**Statement of Claim served** The Board announced that it had been informed that two wholly-owned subsidiaries of the company, Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd were served with a statement of claim for proceedings in the Supreme Court of Queensland by the three joint venture participants in the Monto Coal Joint Venture which are not associated with Macarthur Coal Limited. The claim is for damages of not less than $68.97 million for breach of contract plus interest and costs.
19 October 2007	**Annual Report** Macarthur Coal released its full-year results by way of the company's Annual Report.
15 November 2007	**Half year profit guidance final** The Board of Directors announced profit guidance for the first half of the 2008 financial year. Based on forecasts, profit for the six months to December 2007 was likely to be in the range of $12 million to $18 million which was significantly lower than the $42.2 million reported in the previous corresponding half.
10 December 2007	**Monto Heads of Agreement** The Board of Directors announced the company had entered into a Heads of Agreement with Noble Group Limited in Hong Kong for the sale of a 19.61% interest in the share capital of Monto Coal 2 Pty Ltd. The consideration was $48.5 million.
10 December 2007	**Purchase of Custom Mining** The Board of Directors announced the signing of a Share Sale Agreement for the purchase of 100% of the shares in Custom Mining Limited. Payment for the acquisition was split between cash and Macarthur Coal shares.
21 December 2007	**Downer EDI Settlement** Macarthur Coal and Downer EDI Mining reached agreement in settling the long-standing dispute between the parties at Coppabella Mine.
10 January 2008	**Completion of Custom Mining Transaction** Macarthur Coal announced the completion of the acquisition of Custom Mining Limited. The details of the transaction were previously announced on 10 December 2007.
21 January 2008	**Mining Activities Suspended due to Heavy Rain** Macarthur Coal announced that the recent heavy rain event, where Coppabella Mine recorded in excess of 233mm in two days, temporarily disrupted coal mining activities at both mines. While there was some damage to haul roads and mining activities were suspended temporarily, there was no damage to large, mobile equipment.
21 January 2008	**Macarthur Coal declares Force Majeure** Macarthur Coal announced that the recent heavy rain event in central Queensland continued to impact production.
26 February 2008	**Macarthur Coal Signs Share Sale Agreement For Sale of Shares in Monto 2 Pty Ltd** Macarthur Coal announced the signing of a Share Sale Agreement for the sale of a 19.61% interest in the share capital of Monto Coal 2 Pty Ltd, a wholly-owned subsidiary of the company, to Paway Limited, a member of the Noble Group. The consideration was $48.5 million as announced by the company on 10 December 2007.
27 February 2008	**Half Yearly Report and Accounts** Macarthur Coal released its half-yearly results by way of an Appendix 4D.
21 April 2008	**Macarthur Coal Confirms it has Received an Approach by a Third Party** In view of recent media speculation, the Board confirmed it had received an approach from a third party in relation to a potential transaction.
30 April 2008	**Hyundai Steel PCI Supply Agreement** Macarthur Coal signed an agreement to enter into a long-term contract for the supply of Coppabella PCI coal with Hyundai Steel Company Limited for use in their new blast furnace from 2009.
5 May 2008	**Macarthur Coal Addresses Continuing Speculation about Approach from Third Party** Further to Macarthur Coal's announcement of 21 April 2008, and having regard to continuing market speculation, the Board advised that discussions with a third party were continuing.
21 May 2008	**ArcelorMittal Investment in Macarthur Coal** Macarthur Coal announced that ArcelorMittal acquired a relevant interest in 14.9% of Macarthur Coal through two special crossings on the ASX at $20.00 for each Macarthur Coal share.
30 May	**Macarthur Coal Announces Resource Increase**

2008	Macarthur Coal announced an upgraded JORC Inferred Resource of 164.6Mt in the Vermont East/Wilunga project area. The resource was calculated following the exploration drilling program that took place in the area over the past eighteen months.
10 June 2008	**Don Nissen Resignation** Macarthur Coal advised of the resignation of director, Mr Don Nissen from the Board.
20 June 2008	**MCC Appoints CFO** Macarthur Coal appointed Stuart Hatton as Chief Financial Officer.
23 June 2008	**Ken Talbot resignation** Macarthur Coal advised that Mr Ken Talbot had resigned from the Board.

5.7.3 Website

Macarthur Coal's website contains information on its investments, investor relations (including the share price [subject to a 20 minute delay]), all ASX announcements lodged since listing on the ASX in July 2001, the share registry contact information, the top 20 shareholder list, marketing, and corporate governance documents. In 2007 a new website was implemented which features user-friendly access to company information.

Shareholders and other interested parties may subscribe to receive the company's ASX announcements via email at: www.macarthurcoal.com.au/RegisterforNews/tabid/69/Default.aspx.

From this year, full interactive copies of our annual report will be available for viewing on our website.

5.7.4 Reports to Shareholders

Shareholders are provided with quarterly, half-yearly and annual reports.

In preparing its reports, Macarthur Coal attempts to present, not only its achievements, but also the challenges that confront the company so that shareholders are able to form an accurate assessment of the company.

The company also strives to ensure that language used in shareholder communication is readily understandable and free from unnecessary jargon. To assist readers, the company provides a glossary of mining industry and financial terminology in each annual report and also makes this available on the company's website at www.macarthurcoal.com.au.

5.7.5 General Meetings

The company encourages shareholders and other interested parties to attend and participate at its general meetings. The company views the meetings as open forums that facilitate discussion between the Board, management and shareholders. The meetings also provide the opportunity to demonstrate the company's commitment to accountability to shareholders and to gain valuable insight from shareholder feedback.

All notices of general meetings and agendas are lodged with the ASX, mailed to shareholders and placed on the company website.

The external auditor attends annual general meetings and is available to answer questions regarding the audit.

Shareholders may submit questions prior to the meetings via letter, email or the website.

The rules for convening a general meeting are detailed in the company's Constitution. Shareholders are welcome to view the Constitution by visiting the company's corporate office or requesting a copy.

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Coppabella Mine with the dragline and a drilling rig.

Directors' Report

5.8 Recognising and Managing Risk

The company has identified its Material Business Risks, has mitigation plans in place and these are monitored regularly by ExCo and the Board.

5.8.1 Risk Management Framework

The company has a comprehensive risk management and internal control system involving all levels of the organisation which is integrated into day-to-day operations and includes structured reporting and monitoring.

A Risk Management Policy, approved by the Board is in place. It requires that Macarthur Coal's activities be undertaken within Board-approved risk tolerance levels to protect profitability and assets. A copy of the Risk Management Policy and Framework is available on the company's website at www.macarthurcoal.com.au.

The Risk Management Policy complements Macarthur Coal's other policies, procedures and codes to manage risk.

Policy	Objective
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 conducted only by authorised personnel
Delegation of Authority Policy	to ensure that commitment of Macarthur Coal 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 to meet operational requirements is maintained, that adequate 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 that only low-risk hedging products are used
Health, Safety and Environment	to ensure maintenance of a safe and healthy work environment where people are protected from injury or illness, our assets are not at risk and a sustainable balance is achieved between economic developments and the protection of the natural environment
Human	to ensure that employees carry out operations in compliance with legislative

Resources	requirements, adhere to all relevant business codes of practice and have 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 Macarthur Coal's Share Trading Policy, common law, the Corporations Act 2001 and the ASX Listing Rules
Fraud & Corruption	to protect Macarthur Coal, its revenue, property, information and other assets from any attempt - either by members of the public, contractors or its own employees – to gain by deceit, financial or other benefits
Segregation of Duties	to minimise the opportunity for fraud to be committed or an error to be overlooked by ensuring that Macarthur Coal's financial activities are adequately segregated
Code of Conduct	to ensure legal and ethical obligations to all stakeholders are met.

5.8.2 Risk Management Process

Management, through the CEO and CFO, is accountable for identifying, assessing, monitoring and managing strategic, financial and operational risks and the whole of company material business risks facing the company. The key focus in 2008 has been to integrate into day-to-day activities, the management and mitigation of material business risks.

Detailed risk registers have been developed to document key risks in the areas in which Macarthur Coal operates. These areas include:

- Strategy
- Mining Operations
- Marketing
- Infrastructure
- Exploration
- Finance
- Human Resources
- Fraud
- Information Technology.

The registers detail:

- events with the potential to cause loss
- consequences
- existing mitigators
- an assessment of the mitigators
- an assessment of residual risk
- a judgment on whether residual risk is within Board-approved tolerance levels
- action plans to reduce residual risks below tolerance levels.

The ExCo group also develops a corporate-wide risk register that details high and extreme risks impacting the whole of the company. A gap analysis is also undertaken between the risks identified by the ExCo group and the high and extreme risks captured on the business unit risk registers. We are then assured that material business risks facing the business from a corporate-wide perspective have been identified. This process facilitates the development and implementation of risk mitigation plans for each material business risk and ensures accountability for those mitigation actions is clear. The mitigation plans have generated opportunities for performance improvement and key mitigation items have been incorporated into senior executive KPIs for the 2009 financial year.

The company has identified 13 material business risks facing the business and provided reports to both the ARMC and the Board on each of the material business risks and their associated mitigation plans. The following list identifies the areas in which the company's material business risks fall and is provided here as context to aid appreciation of the challenges and opportunities faced by Macarthur Coal and the industry generally (the list is by no means exhaustive):

- infrastructure access
- increasing regulation
- carbon
- rising costs

- maintaining licence to operate
- business interruption
- development of new projects
- loss of or failure to attract skilled staff.

The company's mitigation plans for each of the Material Business Risks are monitored quarterly by management and six-monthly by the ARMC and the Board. Any changes in the material business risk profile are reported to the Board through the CEO's report.

5.8.3 CEO and CFO Sign Off

Part of the company's risk management framework includes a structured system for assessing, monitoring and managing financial reporting and compliance risks.

In order for the CEO and CFO to make the necessary declaration to the Board, a number of tools are used to report any issues that may arise in respect of the internal control environment:

Internal Policy Compliance

Familiarisation with the corporate policies is incorporated into the company's induction program for all new employees and refresher training was undertaken during the year for all employees on the objectives and company's expectations of compliance with each of the key policies. Written confirmation of compliance with these policies is obtained from all employees. No material issues of non-compliance were reported in the 2008 financial year.

Compliance Control Checklists

Compliance control checklists are also used as a tool at the end of each financial year to gather information on any issues that may have arisen during the year. These are reviewed by the CEO and senior executives, the ARMC and our external auditor as part of the half-yearly and end of year reporting. The checklists ask questions in the areas of:

- accounting and financial reporting
- the general control environment
- fraud
- regulatory and policy compliance
- record keeping and disclosure
- safety
- environment
- risk management and insurance
- information systems
- litigation
- internal control compliance
- tenement management.

5.8.4 Internal Audit

Ernst & Young are the company's internal auditors and have assisted the Board in ensuring compliance with internal control and risk management programs. The internal audit function delivers value-added quality services for continuous improvement of the accountability and management of the company. The audit program includes a review of the effectiveness of the compliance and control systems. Audit activity is structured around the risk registers with a focus on the risks identified as having the greatest potential to adversely affect Macarthur Coal.

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Coppabella Mine at sunset.

Directors' Report

5.9 Remunerating Fairly and Responsibly

Our remuneration structure is designed to attract and retain high calibre people and comprises a performance-based component linked to stretch targets.

5.9.1 Remuneration Principles and Oversight

The NRC has responsibility for:

- reviewing and making recommendations on the appropriateness and relevance of the remuneration policy, having regard to market factors and the requirements of the company and including the requirement, where necessary, for shareholder approval of remuneration practices
- considering the remuneration of executive and non-executive directors and making recommendations to the Board
- considering and approving remuneration increases and short term incentives for members of the ExCo
- recommending the design of all employee remuneration and incentive plans and payments to be made under the plans.

Details on the company's Remuneration Policy and the links to company performance are outlined in the Remuneration Report.

5.9.2 Director Remuneration

The Remuneration Report also discusses the company's remuneration principles for directors.

The report distinguishes the structure of non-executive directors' remuneration from that of the Managing Director and senior executives.

Non-executive director remuneration consists of fees for being a director on the Macarthur Coal Board and for membership of Board committees. Additionally, the Chairman of the Board and Chairman of the ARMC receive additional compensation for that responsibility.

Non-executive directors also receive 10,000 Macarthur Coal shares per annum as equity-based remuneration.

The total quantum of remuneration (including fees, statutory superannuation and shares) paid to non-

executive directors during the year was within the amount ($950,000) approved by shareholders at the 2007 AGM.

There is no scheme for retirement benefits, other than superannuation, for non-executive directors.

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Trish Kenny, Environmental Officer, watches the sun rise over the raw water storage dam at Coppabella Mine.

Directors' Report

6. ENVIRONMENTAL REGULATION

Macarthur Coal'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 Coal values the environment and is conscious of the company's environmental impact. Macarthur Coal aims to maximise the economic recovery of coal while minimising the environmental impact on the areas affected by its operations.

To achieve a high level of environmental care, an Environmental and Government Liaison Officer oversees Macarthur Coal's environmental obligations and a full-time Environmental Coordinator is engaged to manage day-to-day environmental matters including monitoring environmental impacts and ensuring compliance with environmental regulations.

Reports on environmental performance are provided to management and the Board on a monthly basis and any instances of non-compliance are reported to both management and the Board. Two instances of non-compliance attracted a fine:

- Coppabella – in March 2008, Coppabella Mine was issued with two warning notices from the EPA. The first was for releasing water from a sediment dam (which was not in compliance with our EA). The second was for a contravention for failure to undertake water sampling in accordance with EA conditions. Consequently, Macarthur Coal was issued with a $1,500 fine
- Moorvale – in July 2007 Moorvale Mine received an infringement notice for unauthorised water discharge from a site dam. Consequently, Macarthur Coal was issued with a $1,500 fine.

All infringements were investigated and procedures put in place to mitigate the risk of recurrence.

In 2007 Macarthur Coal established a Carbon Committee to develop a carbon emissions management strategy and in April 2008, the Board approved the company's Climate Change Policy.

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An emergency response team made up of Macarthur Coal employees goes through a training program.

Directors' Report

7. PRINCIPAL ACTIVITIES

Macarthur Coal's principal activities during the course of the year were coal mining, project evaluation and coal exploration. Product coal is predominantly exported to Asia, Europe and Brazil.

Macarthur Coal's transition from mine manager to owner operator at Coppabella Mine reached a significant milestone in May 2008 when the company assumed operation of the Marian 8200 dragline and truck fleet.

In January 2008 the company completed the acquisition of Custom Mining Limited including an interest in the Middlemount Mine project and a farm-in agreement for up to 70% of the Dingo West project.

There were no other significant changes in the nature of Macarthur Coal's activities during the year.

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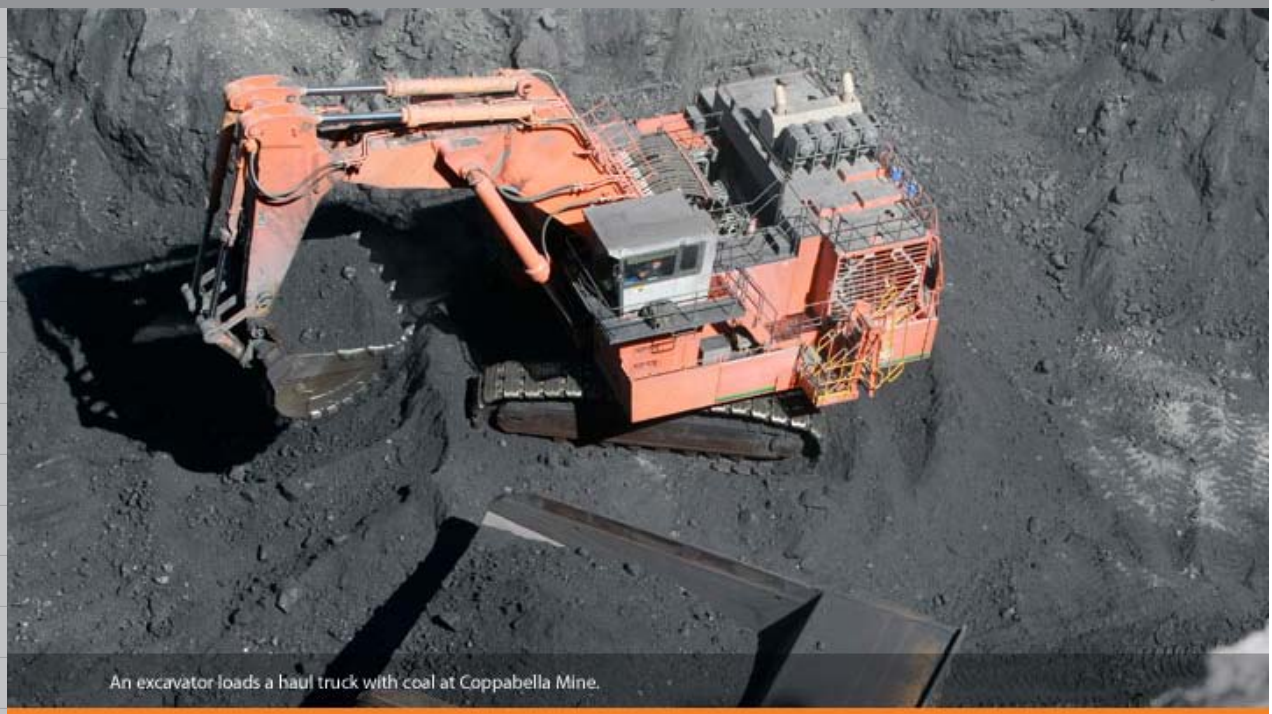

An excavator loads a haul truck with coal at Coppabella Mine.

Directors' Report

8. BUSINESS STRATEGY

Macarthur Coal will continue to pursue its policy of strengthening production and growth in order to fulfil its vision of being the leading independent Australian coal company. The company has again identified its Top Five strategic priorities for AFY2009 and the next three years. They are:

- Safety and people
- Operational excellence
- Cost focus
- Production growth
- Carbon and environment

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Scott Goldig, Project Engineer, watches a dozer moving overburden at Moorvale Mine.

Directors' Report

9. REVIEW OF OPERATIONS

Coppabella Mine

Attributable run of mine (ROM) production for 2008 was 2.17Mt. This was 41.6% below the production results achieved in the previous year due to ongoing infrastructure constraints in the Goonyella coal chain which forced a reduction in production during the first half of the financial year.

Severe rain events in which a total of 1,200mm of rain fell at Coppabella between early December 2007 and February 2008 also impacted production. The rainfall was four times more than the annual average rainfall for the mine. As a result of the rain, all onsite dams filled and a significant amount of water collected in the open-cut. No mining equipment was damaged during the rainfall event however some of the haul and access roads required rehabilitation work. The company declared force majeure under the terms of its coal sales contracts on 25 January 2008 and this was lifted on 20 August 2008. Coppabella is not expected to return to pre-flood event full production volumes until January 2009.

In December 2007 Macarthur Coal (C&M Management) Pty Ltd and Downer EDI Mining announced that they had reached agreement to settle their long-standing dispute at Coppabella Mine. The specific terms of the settlement remain confidential.

The new P&H 4100C electric rope shovel and Caterpillar 793 truck fleet were fully operational by the end of January 2008 and this was achieved on time and in budget. The shovel achieved its one million bcm milestone in February 2008. The benefits of the shovel include cost reduction and far lower diesel consumption at the mine.

Macarthur Coal also took over operation of the Marion 8200 dragline in May 2008, completing a significant milestone in the progression to owner operator.

Moorvale Mine

Attributable ROM production was 1.94Mt which was 15.1% more than the previous year. In the first half of the financial year, infrastructure constraints impacted production due to full onsite stockpiles. One excavator and associated truck fleet was removed from the mine.

The severe rainfall event also affected Moorvale Mine, however, due to mine layout and size, it was not as heavily impacted as Coppabella. Production was delayed when water entered the open-cut but this was pumped out reasonably quickly resulting in mining activities returning to normal in May 2008.

An upgrade of the CHPP was completed early and within budget on 1 October 2007. The plant can now

process at the ROM rate of 600 tonnes per hour which is a 33% increase on its previous throughput capacity of 450 tonnes per hour. The upgrade will enable the mine to increase production in line with the port allocation increase. The CHPP achieved the expanded capacity rate on an annualised basis in March 2008.

Over $110 million worth of mining equipment has been ordered for Moorvale Mine. It is planned for the company to transition to owner operator at Moorvale by the end of 2009 with all mining operations to be undertaken by Macarthur Coal. The first excavator fleet arrived in the September quarter and will replace the excavator and truck fleet removed by Leighton Contractors in December 2007 as a result of port congestion.

Sales

Macarthur Coal's annual coal sales entitlements from Coppabella and Moorvale mines are set out in the following table:

	2008	2007	Variance
	tonnes '000s	tonnes '000s	%
Coppabella (excludes purchased coal)	2,064.3	2,748.0	(24.9)
Moorvale (excludes purchased coal)	1,613.9	1,046.6	54.2
Total (excludes purchased coal)	**3,678.2**	**3,794.6**	**(3.1)**

Middlemount Mine Project

On 15 January 2008, Macarthur Coal completed the acquisition of Custom Mining Limited. Custom Mining Limited's principal asset was its 78.98% ownership of the Middlemount project, through its investment in Middlemount Coal Pty Ltd, an equity accounted investment. The Middlemount project is approximately six kilometres south-west of the township of Middlemount.

The Middlemount Mine project comprises Mineral Development Licence (MDL) 282 which is a 1,800 hectare tenement over the Rangal Coal measures.

Under the provisions of the MDL, a bulk sample is being mined to enable a detailed assessment of coal quality and mining conditions. The bulk sample pit development commenced in early December 2007. The bulk sample pit is expected to yield approximately 360,000 tonnes of Pisces seam coal which includes both semi-hard coking and PCI quality coal.

A Mining Lease Application (MLA) has been lodged over the deposit to enable the commencement of ongoing mining after completion of the bulk sample. Progress of the MLA has been delayed due to additional water management and flood studies that have been required due to the flooding in January 2008. We anticipate that the mining lease will be granted in mid-2009.

At 30 June 2008, ownership of the Middlemount Mine project had reduced to 74.66% in accordance with the terms of the pre-acquisition agreements with Noble. The agreements require a further 4.66% to be sold in the future when project milestones are met which will result in Macarthur Coal owning 70% of the project.

Exploration Activities

Exploration activities from December 2007 through to July 2008 were negatively impacted by long periods of wet weather which occurred in December 2007 through to February 2008.

Exploration activities were primarily directed at advancing the Codrilla, Vermont East and Dingo West projects. The Coppabella and Moorvale underground projects were also progressed.

Exploration expenditure for the 2008 financial year was $8.5 million.

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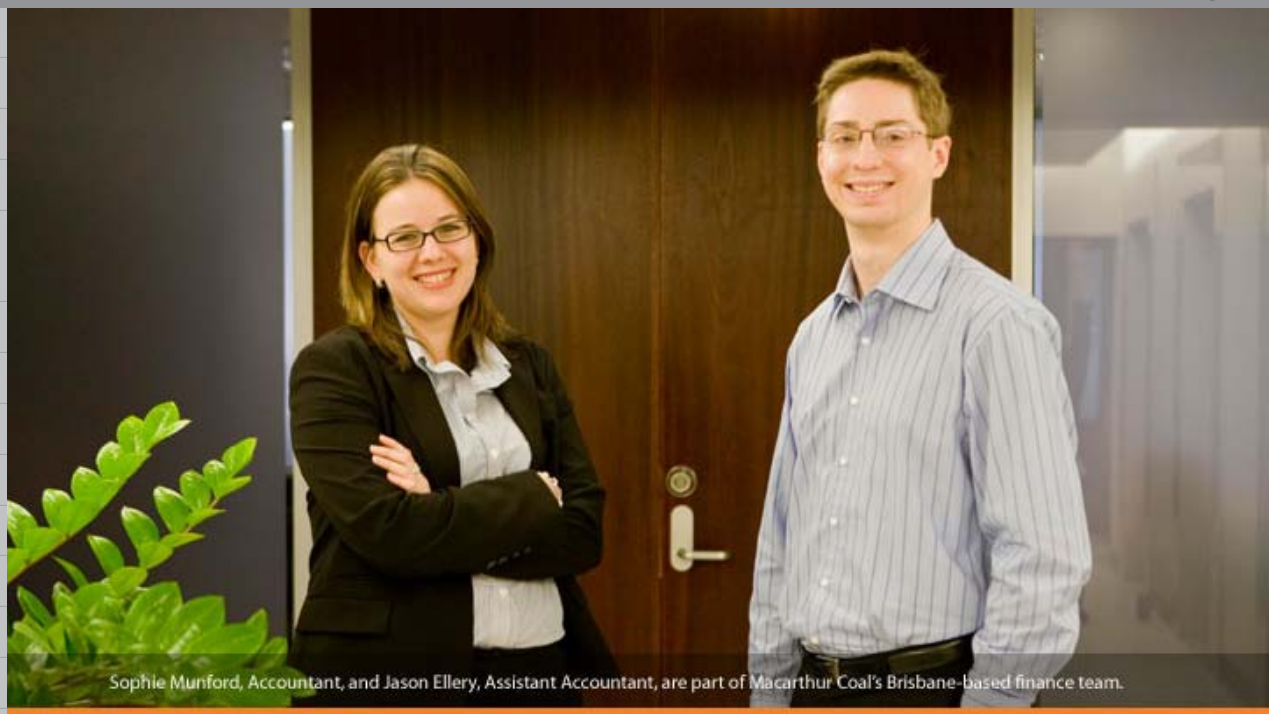

Sophie Munford, Accountant, and Jason Ellery, Assistant Accountant, are part of Macarthur Coal's Brisbane-based finance team.

Directors' Report

10. FINANCIAL PERFORMANCE

10.1 Net Profit

Profit for the Year

Net profit after tax (NPAT) was $72.7 million for 2008. This was 9.3% higher than the previous year and was predominantly due to favourable coal prices and the net gain on sale of a 19.61% interest in Monto Coal 2 Pty Ltd.

There was a late accounting adjustment to the consolidated NPAT in relation to a capital gain on the partial sale of Monto Coal 2 Pty Ltd. This late adjustment resulted in the NPAT for the year falling below the profit guidance of $80 million to $90 million. The late adjustment has no impact on either present or future profit from operations, or cashflows.

The following table shows the impact of the adjustment:

	Market Guidance Range	10/07/08	NPAT
	A$m	A$m	A$m
NPAT range from operations	51.5	61.5	55.6
Estimated gain on sale of 19.61% in Monto Coal 2	28.5	28.5	23.4
Reduction in NPAT from deconsolidation of Monto Coal 2			(6.3)
NPAT	**80.0**	**90.0**	**72.7**

10.2 Cash Flows

Cash at 30 June 2008 was $22.5 million decreasing from $96.6 million at 30 June 2007.

The major items that resulted in the reduction in cash held were:

($55.5) million reduction from the cash component for the acquisition of the Custom Mining Group, net of cash acquired

($39.4) million reduction from receivables outstanding at 30 June 2008 due to higher June 2008 shipments

($73.7) million reduction from increase in overburden in advance

$48.5 million inflow from the disposal of 19.61% interest in Monto Coal 2 Pty Ltd

$34.4 million inflow from the disposal of equity securities held at 30 June 2007.

10.3 Return on Investment

Return on invested capital (ROIC) was 10.0% (2007:13.3%). The decrease is due to higher levels of issued capital and debt compared to 2007. These additional amounts were raised to fund the acquisition of the Custom Mining Group, which will ultimately lead to improved returns in the future. Earnings before interest and tax and share of loss of equity accounted investees increased by 44% to $117,672,000 (2007:$81,972,000). Invested capital increased by 71% to $738,991,000 (2007:$432,139,000).

10.4 Debt and Gearing

Net debt to equity was 3.8% (2007:Nil) given corporate debt drawn during the year.

Interest cover (EBITDA/interest paid) was 65.1 times (2007:60.5 times).

10.5 Hedging

Coal sales are priced in United States dollars. Consequently, increases in the value of the Australian dollar relative to the United States dollar expose Macarthur Coal to lower Australian dollar revenues. Forward exchange contracts are entered into to manage the foreign exchange risk.

In 2008, forward exchange contracts at an average A$:US$ 0.8267 exchange rate covered 87% of United States dollar revenues. The average spot A$:US$ exchange rate (excluding any foreign exchange hedging benefit) applicable to sales for 2008 was US$0.9116.

The value of forward exchange contracts held at 30 June 2008 to hedge future United States dollar revenues was:

Period covered by FX Hedge Contracts	United States dollar value	FX rate A$1.00=US$
July 08 to June 09	586,516,000	0.9005
Total	586,516,000	0.9005

10.6 Dividends

The annual dividend accords with Macarthur Coal's policy of paying approximately 50% of NPAT as 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
Declared and paid during the year 2008				
Final 2007 ordinary	7	13,117	Franked	28 September 2007
Interim 2008 ordinary	3	6,365	Franked	31 March 2008

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

Declared after End of Year

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

	Cents per share	Total Amount $'000	Franked/ Unfranked	Date of Payment
Final 2007 ordinary	14	29,702	Franked	30 September 2008

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports. Franked dividends declared after the end of the year are franked at the rate of 30%.

	Note	Total Amount $'000
Dealt with in the financial report as:		
Dividends	28	19,482
Noted as a subsequent event	28	29,702

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Coal rolling onto the product stockpile at Moorvale Mine.

Directors' Report

11. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There are no significant changes in the state of affairs of Macarthur Coal.

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The company has a large tenement portfolio from which to develop new projects.

Directors' Report

12. LIKELY DEVELOPMENTS

The likely developments for the 2009 financial year include:

- Progressing the transition to owner operator at Coppabella Mine: The second and third phases of the transition to owner operator at Coppabella Mine took place during 2008 with commissioning of the P&H 4100 electric rope shovel and taking over operation of the dragline and all mining operations previously performed by Downer EDI Mining. The final phase of the transition is to achieve the targets we have set ourselves for 2009 to strive for operational excellence. This will include ensuring systems and procedures are in place to manage operations and that our employees carry out their day to day activities safely, productively while demonstrating our Four Pillars.

- Transitioning to owner operator at Moorvale Mine: A decision was made in 2008 to undertake a staged transition to owner operator at Moorvale Mine. In excess of $110 million in equipment has been ordered and will be commissioned progressively during 2009 so that, by November 2009, we will undertake all mining operations at Moorvale on an owner operator basis. Leighton Contractors, the current mining contractors at Moorvale, are instrumental in helping us with the staged transition and will progress to undertaking the box-cut at our Olive Downs North project. The box-cut will commence once the transition to owner operator at Moorvale has been completed, expected to be late 2009.

- Progressing the Middlemount Mine project: It is expected that by the end of 2008, mining at the bulk sample pit at Middlemount will be completed. A MLA has been lodged over the deposit to enable commencement of mining after completion of the bulk sample pit, however, progress of the MLA has been delayed due to additional water management and flood studies that have been required because of the flooding in January 2008. Macarthur Coal is working closely with the EPA to complete these studies. It is anticipated that, subject to grant of the lease, ongoing mining of the deposit at a rate of up to 2Mtpa ROM coal will commence late in 2009.

- Other Projects: With increased port allocation secured for the future, Macarthur Coal plans to expand total production through the development of new mines. The company is upgrading the status of current Resources with the goal of developing them in line with market demand. In particular, work will continue during the year to increase the feasibility status of the Codrilla deposit.

Further information about the likely developments and expected results in future financial years has not been included in this report because the directors believe that disclosure of the information would be likely to result in unreasonable prejudice to Macarthur Coal.

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The dragline removes overburden above a coal seam at Coppabella Mine.

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13.2 Executive Remuneration (including CEO/Managing Director) - Audited
13.3 CEO and Executive Employment Contracts – Audited
13.4 Non-Executive Director Remuneration – Audited
13.5 Employee Share Plans – Audited
13.6 Consequences of Performance on Shareholders' Wealth - Audited
13.7 Directors' and Executive Officers' Remuneration (Company and Consolidated) Year Ended 30 June 2008 – Audited
13.8 Analysis of Bonuses Included in Remuneration – Audited
13.9 Equity Instruments – Audited

13. REMUNERATION REPORT - AUDITED

13.1 Principles of Remuneration – Audited

Macarthur Coal's Remuneration Policy is designed to facilitate the alignment of individual performance with the company's goals and the creation of shareholder value. The key elements of the Remuneration Policy include:

remuneration practices that are fairly and responsibly structured to attract and retain talented team members and to motivate them to achieve both near-term and longer-term success

- reward arrangements that comprise appropriate At Risk incentives based on financial and non-financial performance measures that are relevant to the business and connected to the individual's actual accountabilities
- remuneration outcomes that are competitively positioned against the appropriate market, taking into consideration the individual's role, company and individual performance, and relevant market conditions.

13.2 Executive Remuneration (including the CEO/Managing Director) – Audited

In the 2008 financial year, remuneration for executives (including the Managing Director) comprised:

Fixed Annual Remuneration (FAR)

The FAR comprises:

- the annual salary which can be structured as a cash benefit and/or non-cash benefit including salary

sacrifice packaging and the fringe benefits tax applicable to the packaging

- statutory superannuation contributions.

The FAR for each employee is to be reviewed annually having regard to the individual's performance and effectiveness, the company's circumstances and the indicative market levels of fixed and total reward for comparable roles from salary survey information provided by remuneration consultants.

Remuneration levels for executives fall within the salary range for comparable companies while maintaining the flexibility to attract and retain people of high calibre. A review has been undertaken in the past 12 months to ensure salaries are aligned with the market.

Short-term Incentive Plan (STIP)

The goal of the STIP is to focus attention on short-term strategic and financial objectives. The award varies based on the year's accomplishments, individual performance, position and level of responsibility.

The STIP provides executives with an opportunity to earn an amount that is additional to their FAR. The additional amount is At Risk and the level is linked to the executive's role and responsibility.

The CEO in conjunction with the executive proposes the individual performance targets and the relative weightings of those targets at the commencement of each financial year. These are then submitted to the NRC for approval. The targets are linked to corporate strategy and each executive's area of responsibility.

At the end of the financial year the amount of any incentive payment is determined based on measured achievement against those targets and a review of the executive's overall performance by the CEO and the NRC. The targets and potential reward outcomes are designed to encourage executives to strive for exceptional performance while demonstrating leadership in our values and culture.

The STIP comprises:

- Financial measures: The consideration of financial measures is subject to the executive's level of influence on financial items
- Qualitative measures: An executive's qualitative measures will include measures such as leadership, teamwork, culture, risk and compliance as well as strategic projects and measures specific to their business unit or function.

At Risk payments were based on the achievement of individual performance objectives considered to impact company performance and create shareholder value. The performance objectives were set at the beginning of the 2008 financial year. Performance objectives are divided between achieving two objectives, namely:

- developing highly-motivated teams and leaders and ensuring our Four Pillars are embedded in our decisions
- stretch targets linked to the corporate Top Five strategic objectives including:
  - commercial returns for our shareholders and growing shareholder value
  - safety of our people
  - understanding and addressing our
  - environmental footprint
  - managing the transition to owner operator at Coppabella
  - enhancing customer relationships.

Performance of each of the senior executives was monitored by the CEO and formally assessed by the NRC after the end of the financial year. Performance of the CEO was monitored by the Chairman and the Board and formally assessed by the Board after the end of the financial year.

Long-term Incentive Plan (LTIP)

The LTIP is an equity-based incentive designed to provide nominated executives with the incentive to deliver long-term growth in shareholder value. The remuneration value of the reward is conditional on the strategic importance of the nominated executive in creating shareholder value.

Nominated executives receive performance rights as a result of meeting earnings per share (EPS), total shareholder return (TSR) and Return On Invested Capital (ROIC) targets measured over a three-year period. The allocation of the LTIP reward is on the following basis:

- 30% linked to growth in the company's EPS
- 50% linked to TSR targets
- 20% linked to ROIC.

The LTIP is set as a percentage of FAR by the NRC each year.

The number of Performance Rights granted to nominated executives is equivalent to the percentage of FAR determined by the NRC divided by the Volume Weighted Average Share Price of Macarthur Coal shares for the first five trading days of July in the year that the Performance Rights are granted.

The provision of Performance Rights is divided into three portions:

- The first portion from the grant of performance rights to the date of vesting will vest based on growth in the company's EPS. The EPS hurdle requires the company's EPS growth from the grant of performance rights to the date of vesting to be greater than the target set by the NRC.

The EPS vesting schedule is:

Growth in EPS	% of the entitlement to shares that will vest
EPS growth below base target	Nil
EPS growth above or equal to base target but below stretch target	50%
EPS growth above or equal to stretch target	100%

- The second portion will vest when TSR, that is, share price growth and reinvested dividends for Macarthur Coal, equals or exceeds targets linked to the TSRs of companies in the ASX S&P 300 Accumulation Index.

The TSR vesting schedule is:

Macarthur Coal TSR performance relative to constituents of ASX S&P 300 Accumulation Index	% of the entitlement to shares that will vest
Less than the 50th percentile	Nil
At the 50th percentile	50%
Greater than the 50th percentile up to the 75th percentile	50% plus 2% for every one percentile increase in Macarthur Coal's relative position
Greater than the 75th percentile	100%

- The third portion will vest based on ROIC performance.

The ROIC hurdle requires that a ROIC base and stretch target be approved by the NRC. Fifty percent of the entitlement to shares will vest when the base target is achieved and 100% if the stretch target is achieved.

Performance Rights are granted each year, subject to the discretion of the NRC. EPS, TSR and ROIC are assessed over a three-year period which, for each tranche of Performance Rights, commences on 1 July in the year in which the Performance Rights are granted and ends on the 30 June three years later (Performance Period).

If the growth targets are met, shares will be acquired on market, avoiding dilution of shareholder equity, and placed in trust for employees until such time as the employees elect to have the shares transferred from the trust. No consideration is payable by the employees for the vesting of rights to shares or on transfer of shares.

If a nominated executive's employment ceases, entitlement to have any Performance Rights vest into shares that have not already vested is at the discretion of the NRC.

2008 Financial Year

Performance Rights for the CEO/Managing Director and nominated senior executives were formalised after the close of the 2008 financial year and as such, according to Australian Accounting Standards, are not disclosed in the Remuneration Report or expensed in the company's income statement until the 2009 financial year.

Disclosed below is the number of Performance Rights proposed to be granted to nominated executives for the 2008 financial year which will be assessed according to the pre-determined measures (EPS, TSR and ROIC) and targets for performance over the three years ending on 30 June 2010.

Name	TItle	Performance Rights 2008
		No.
Nicole Hollows	Chief Executive Officer	27,548
Peter Kane	Chief Operating Officer	9,297*

Shane Stephan	Chief Development Officer	10,468
Gary Lee	VP Marketing	10,468
Lisa Dalton	Company Secretary	3,361
Michael Gray	EGM Infrastructure & Projects	7,438
Ian McAleese	EGM Corporate Development & Investor Relations	7,989
David Waddell	GM Moorvale	3,471

*Commenced 18 February 2008 and Performance Rights are pro-rata.

It is intended that the structure of executive remuneration will remain the same for the 2009 financial year and will include:

- Short-term incentive plan – tied to achievement of individual performance objectives and company targets over a 12 month period
- For nominated executives - long-term incentive plan – equity-based award tied to performance hurdles measured over three years.

13.3 CEO and Executive Employment Contracts – Audited

Executive

The company has entered into employment contracts with each key management person, excluding the CEO, that are capable of termination on three months notice. The company retains the right to terminate the contract immediately by making payment equal to three months pay in lieu of notice.

Should a key management employee's position become redundant, they are entitled to three months notice and a severance payment equivalent to three weeks pay pro-rata for each year of continuous service provided that the severance payment will be a minimum of 26 weeks pay and a maximum of 52 weeks pay.

Key management personnel can also be terminated without notice for gross misconduct.

The key management personnel are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long-service leave, together with any superannuation benefits.

Chief Executive Officer

Nicole Hollows is the Managing Director and CEO of the company. Her appointment as CEO/Managing Director is under an executive employment contract dated 28 August 2007 which was amended on 20 June 2008.

Ms Hollow's employment contract is capable of termination in the following circumstances:

- by Ms Hollows on giving three months notice
- by Macarthur Coal on giving twelve months notice or payment
- in lieu
- by Macarthur Coal without notice for gross misconduct.

Should the position become redundant, Ms Hollows is entitled to any untaken leave entitlements and twelve months salary at her annual salary rate.

Upon cessation of employment, Ms Hollows is entitled to a payment for untaken long-service leave and holiday leave at her salary rate.

13.4 Non-Executive Director Remuneration – Audited

The level of fees paid to non-executive directors is to reflect the demands on the directors and the responsibilities they carry.

Director remuneration is to be a fixed amount which can comprise:

- cash
- statutory superannuation
- non-cash benefits including superannuation contributions above the statutory amount using salary sacrifice arrangements
- shares in the company to strengthen directors' alignment with shareholder interests. Shares are to be held for a minimum of three years.

Non-executive director remuneration is reviewed annually with industry benchmarks. If a director's performance assessment has taken place, this is also used to review remuneration levels.

Non-executive directors are excluded from bonus and option arrangements and retirement benefits other than superannuation contributions.

Individual non-executive director remuneration is approved by the Board. The aggregate amount of director remuneration is approved by shareholders.

Total aggregate remuneration payable to non-executive directors of $950,000 per annum was approved at the AGM held on 21 November 2007.

Non-executive directors receive a base fee of $45,000 per annum plus 10,000 shares in the company. The provision of shares is not subject to performance conditions.

The Chairman of the Board receives an additional fee of $25,000. The annual fee for committee membership is $10,000 and the Chairman of the ARMC receives a further $5,000.

Individual director performance is formally assessed by the Chairman. The Board undergoes an evaluation process to assess its effectiveness as a value-adding body. There was no Board or director assessment in 2008.

13.5 Employee Share Plans – Audited

Employee Share Loan Plan

In May 2005 Macarthur Coal established an Employee Share Loan Plan to encourage employee share ownership and to assist in aligning employees' interests with shareholders' interests. In November 2005 an invitation to participate in the loan plan was extended to all Macarthur Coal employees and employees of approved contractors. Each employee who accepted the invitation was provided with a loan to finance the purchase of shares in the company.

The loan limit applicable to each person falling within the Key Management Personnel classification was $20,000. The loan limit for other employees ranged from $6,000 to $18,000 with the amount varying according to seniority.

The shares were acquired 'on market' at market value on behalf of the employees. The loan does not give rise to fringe benefits tax as the loan was used to acquire income-producing shares.

Loans are interest free. Loan repayments comprise the retention of dividends plus a monthly payment by employees of an amount equal to 1% of monthly gross salary.

Loans are repayable on termination of employment. Shares are held within a trust on behalf of employees. When an employee resigns, the trustee sells the shares and uses the proceeds to reduce the loan balance. Any surplus is then given to the employee. The company bears the expense of any loan shortfall.

An invitation to participate in the loan scheme was not made in the 2008 financial year.

Deferred Employee Share Plan

In the 2009 financial year, Macarthur Coal will offer a deferred employee share plan to all employees. The plan will allow employees to salary sacrifice up to a pre-determined percentage of their pre-tax total salary for shares. The tax payable on the sacrificed salary can be deferred for up to ten years if conditions under the plan are met.
This plan will replace the Employee Share Loan Plan that commenced in 2005.

13.6 Consequences of Performance on Shareholders' Wealth - Audited

Performance in respect of the current financial year and previous four financial years, covering the period in which Macarthur Coal has been operating, is detailed in the table below.

	2004[1]	2005[1]	2006[2]	2007[2]	2008[2]
Net profit	$11,743,000	$61,420,000	$149,589,000	$66,544,000	$72,684,000
Dividends paid	$1,286,000	$17,751,000	$61,412,000	$54,340,000	$19,481,000
Change in share price	$1.09	$5.44	-$2.97	$2.29	$10.10
Return on invested capital	7.3%	24.9%	36.8%	13.3%	10.0%
Earnings per share (diluted)	8.6¢	38.5¢	83.2¢	35.5¢	36.6¢

[1] Old AGAAP profits
[2] AIFRS profits

The company's performance is not only impacted by market factors but also by employee performance. The measures of company performance set out in the above table have been taken into consideration when setting remuneration levels.

13.7 Directors' and Executive Officers' Remuneration (Company and Consolidated) Year Ended 30 June 2008 – Audited

Details of the nature and amount of each major element of remuneration of each director of the company and each of the five named company executives and relevant group executives who receive the highest remuneration are in the following tables.

There were no performance-based remuneration paid or options granted to non-executive directors.

Click the table below to zoom.

	Short term				Post employment benefits – Super-annuation	Long-term employee benefits	Termi-nation benefits	Share-based payment			Proportion of remu-neration perform-ance related	Value of options as a proportion of remu-neration
	Salary & fees	STI cash bonus	Non-monetary benefits	Total				Shares	Options	Total		
	$	$	$	$	$	$	$	$	$	$	%	%
DIRECTORS												
Non-executive												
Keith De Lacy												
2008	75,688	-	5,583	81,271	14,312	-	-	83,864	-	179,447	-	-
2007	55,045	-	1,197	56,242	34,954	-	-	44,200	-	135,396	-	-
Roger Marshall												
2008	57,049	-	22,241	79,290	12,951	-	-	85,219	-	177,460	-	-
2007	98,439	-	1,197	99,636	21,361	-	-	44,200	-	165,197	-	-
Don Nissen (Resigned 07/06/2008)												
2008	47,403	-	27,646	75,049	4,266	-	-	85,219	-	164,534	-	-
2007	55,045	-	1,197	56,242	4,954	-	-	46,900	-	108,096	-	-
Peter Forbes												
2008	20,072		5,583	25,655	49,766	-	-	85,219	-	160,640	-	-
2007	50,458	-	1,197	51,655	4,541	-	-	44,200	-	100,396	-	-
Ken Talbot (Resigned 23/06/2008)												
2008	-	-	5,476	5,476	21,667	-	-	-	-	27,143	-	-
2007	268,266	-	14,552	282,818	31,806	-	-	-	-	314,624	-	-
Chen Zheng (Appointed 23/07/2007)												
2008	47,475	-	5,232	52,707	4,273	-	-	-	-	56,980	-	-
2007	-	-	-	-	-	-	-	-	-	-	-	-
Executive												
Nicole Hollows, Chief Executive Officer												
2008	514,670	200,000	44,587	759,257	49,991	63,580	-	-	-	872,828	23	-
2007	404,960	160,000	24,216	589,176	42,690	7,743	-	-	-	639,609	25	-
ALL DIRECTORS												
2008	**762,357**	**200,000**	**116,348**	**1,078,705**	**157,226**	**63,580**	**-**	**339,521**	**-**	**1,639,032**		
2007	**932,213**	**160,000**	**43,556**	**1,135,769**	**140,306**	**7,743**	**-**	**179,500**	**-**	**1,463,318**		
EXECUTIVES												
Peter Kane (Commenced 18/02/2008), Chief Operations Officer, Macarthur Coal Limited												
2008	153,641	27,000	6,104	186,745	13,816	-	-	-	-	200,561	13	-
2007	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Shane Stephan, Chief Development Officer, Macarthur Coal Limited												
2008	389,978	60,000	43,130	493,108	13,133	21,164	-	-	-	527,405	11	-
2007	339,073	52,250	41,286	432,609	15,365	117	-	-	-	448,091	12	-
Gary Lee, Vice President Marketing, Macarthur Coal Limited												
2008	284,021	60,000	39,102	383,123	100,005	10,642	-	-	-	493,770	12	-
2007	289,200	58,900	49,349	397,449	50,572	934	-	-	-	448,955	13	-
Lisa Dalton, Company Secretary, Macarthur Coal Limited												
2008	98,696	22,000	7,625	128,321	8,546	-	-	-	-	136,867	16	-
2007	4,792	-	1,197	5,989	401	-	-	-	-	6,390	-	-
Michael Gray, EGM Projects, Macarthur Coal Limited												
2008	232,480	43,200	38,959	314,639	13,129	3,173	-	-	-	330,941	13	-
2007	188,281	42,500	22,477	253,258	11,300	-	-	-	-	264,558	16	-
David Waddell, GM Moorvale Mine, Macarthur Coal Mine Management Pty Ltd												
2008	241,239	30,200	8,929	280,368	18,390	2,213	-	-	-	300,971	10	-
2007	181,836	26,400	1,831	210,067	11,718	-	-	-	-	221,785	12	-
Belinda Smith, Acting Chief Financial Officer (Appointed 07/05/2008), Macarthur Coal Limited												
2008	22,365	1,893	3,193	27,451	2,059	310	-	-	-	29,820	6	-
2007	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Ian McAleese (KMP to 06/12/2007), EGM Corporate Development, Macarthur Coal Limited												
2008	95,880	19,497	16,017	131,394	18,827	1,336	-	-	-	151,557	13	-
2007	225,783	49,300	28,996	304,079	55,281	-	-	-	-	359,360	14	-
Ken Carnes (Not KMP from 01/07/2007), Vice President Marketing Asia, Macarthur Coal Limited												

Keli Carnes (Not KMP from 01/07/2007), Vice President Marketing Asia, Macarthur Coal Limited												
2008	-	-	-	-	-	-	-	-	-	-	N/A	N/A
2007	326,072	20,102	1,197	347,371	-	-	-	-	-	347,371	6	-
FORMER EXECUTIVES												
Ian Fuller (Appointed 06/12/2007 – Resigned 07/05/2008), Chief Financial Officer, Macarthur Coal Limited												
2008	98,123	-	3,208	101,331	5,680	-	54,217	-	-	161,228	-	-
2007	-	-	-	-	-	-	-	-	-	-	N/A	N/A
Paul Smallbone (Resigned 21/05/2008), GM Coppabella Mine, Macarthur Coal Mine Management Pty Ltd												
2008	262,490	-	9,624	272,114	24,135	-	63,073	-	-	359,322	-	-
2007	230,325	25,200	1,748	257,273	18,686	-	-	-	-	275,959	9	-
Derick Wilford (Resigned 31/01/2008), Vice President – Business Improvement, Macarthur Coal Limited												
2008	98,379	3,800	25,827	128,006	59,366	-	-	-	-	187,372	2	-
2007	146,087	44,950	20,230	211,267	87,670	-	-	-	-	298,937	15	-
Brett Garland (Resigned 30/06/07), Vice President – Underground Mine Development, Macarthur Coal Limited												
2008	-	-	-	-	-	-	-	-	-	-	N/A	N/A
2007	299,234	-	12,664	311,898	67,385	-	120,000	-	-	499,283	-	-
Ian Neill (Resigned 01/03/2007), Vice President – Opencut Mine Development, Macarthur Coal Limited												
2008	-	-	-	-	-	-	-	-	-	-	N/A	N/A
2007	259,662	-	13,020	272,682	38,687	-	114,928	-	-	426,297	-	-
Bob Adams (Resigned 24/05/07), Company Secretary, Macarthur Coal Limited												
2008	-	-	-	-	-	-	-	-	-	-	N/A	N/A
2007	204,416	8,700	89,123	302,239	61,376	-	-	-	-	363,615	2	-
Denis Wood (Resigned 30/04/2007), CEO, Queensland Coke & Energy Pty Ltd												
2008	-	-	-	-	-	-	-	-	-	-	N/A	N/A
2007	143,700	-	5,807	149,507	52,500	-	-	-	-	202,007	-	-
Total remuneration – key management personnel Consolidated												
2008	**1,977,292**	**267,590**	**201,718**	**2,446,600**	**277,086**	**38,838**	**117,290**	**-**	**-**	**2,879,814**		
2007	**2,838,461**	**328,302**	**288,925**	**3,455,688**	**470,941**	**1,051**	**234,928**	**-**	**-**	**4,162,608**		
Total remuneration – key management personnel Company												
2008	**1,473,563**	**237,390**	**183,165**	**1,894,118**	**234,561**	**36,625**	**54,217**	**-**	**-**	**2,219,521**		
2007	**2,282,600**	**276,702**	**279,539**	**2,838,841**	**388,037**	**1,051**	**234,928**	**-**	**-**	**3,462,857**		

13.8 Analysis of Bonuses Included in Remuneration – Audited

Details of the vesting profile of the STI cash bonuses awarded as remuneration to each of the named company executives and relevant group executives are detailed below. There were no bonuses paid to non-executive directors.

Short-term Incentive Bonus AFY08			
	Included in remuneration[1]	Vested in year	Forfeited in year[2]
	$	%	%
Executives			
The Company			
Nicole Hollows	200,000	100	0
Peter Kane[3]	27,000	80	20
Shane Stephan	60,800	80	20
Gary Lee	60,800	80	20
Lisa Dalton	22,000	90	10
Michael Gray	43,200	80	20
Ian McAleese	39,200	67.5	32.5
David Waddell	31,500	62.5	37.5
Derick Wilford[4]	3,800	10	90

[1] Amounts included in remuneration for the financial year represent that amount that vested in the financial year based on achievement of KPIs. No amounts vest in future years in respect of the bonus schemes for the 2008 financial year.
[2] The amounts forfeited are due to the KPIs not being met in relation to the current financial year.
[3] Commenced 18 February 2008. STI is pro-rata.
[4] Resigned 31 December 2007. STI is pro-rata.

13.9 Equity Instruments – Audited

There were no options at the beginning of the year as all options previously held were exercised in prior years.

No options were granted during the year or have been granted since the end of the financial year.

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Peter Kane, COO, Roger Marshall, Director, Peter Forbes, Director, Scott Graham, GM - Middlemount, Ian McAleese, EGM - Corporate Development and Keith De Lacy, Chairman, discuss the plant for the Middlemount Mine project.

Directors' Report

14. DIRECTORS' SHAREHOLDING AND INTERESTS

The relevant interest of each director in the shares or options over shares issued by the company and other related body corporates, as notified by the directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report or the date the director resigned is as follows:

Macarthur Coal Limited		
	Ordinary shares	Options over ordinary shares
Keith De Lacy	294,240	Nil
Roger Marshall	144,240	Nil
Peter Forbes	42,240	Nil
Nicole Hollows	10,000	Nil
Chen Zeng	0	Nil
Don Nissen[1]	177,774	Nil
Ken Talbot[2]	41,917,640	Nil

[1] As at date of resignation, 7 June 2008.
[2] As at date of resignation, 23 June 2008.

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Drilling rig at Coppabella Mine.

Directors' Report

15. INSURANCE PROVIDED AND INDEMNIFICATION OF OFFICERS

The company has paid a premium for a contract insuring all directors and executive officers of the company and each of its controlled entities against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors and executive officers insurance liability contract, as (in accordance with normal commercial practice) such disclosure is prohibited under the terms of the contract.

The company has agreed to indemnify each person who is or has been a director, officer or agent of the company and/or of its controlled entities against all liabilities to another person (other than the company 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. The company 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 the company would, by operation of the above indemnities, be required to meet.

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Haul trucks at Coppabella Mine.

Directors' Report

16. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to 30 June 2008, Custom Mining Limited, a controlled entity entered into an agreement for the partial sell down of its interest in Custom Mining Dingo Pty Ltd, a wholly owned controlled entity, to a third party. Custom Mining Dingo Pty Ltd has a farm-in agreement for up to 70% of the Dingo West Joint Venture. The sell down is through two parts, the first being a 14.285% interest for $6,500,000, which has taken place at the time of signing the financial statements, and the second part being a further 12.857% interest for purchase consideration equal to an agreed price at the time of the transaction.

There were no other matters arising subsequent to the end of the financial year that would have a material impact on the company or the Group.

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Haul truck driver, Mel Patroni, finishes her shift at Coppabella Mine.

Directors' Report

17. PROCEEDINGS ON BEHALF OF THE COMPANY

At the date of this report there are no leave applications or proceedings brought on behalf of the company under Section 237 of the *Corporations Act 2001*.

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Conveyor belt and product stockpile at Moorvale Mine.

Directors' Report

18. NON-AUDIT SERVICES

During the year KPMG, the company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor. It is satisfied that, in accordance with written advice provided by resolution of the ARMC, the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were provided subject to the corporate governance procedures adopted by Macarthur Coal and have also been reviewed by the ARMC to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for Macarthur Coal, acting as an advocate for Macarthur Coal or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the company, KPMG, for audit and non-audit services provided during the year are set out in Note 10 to the financial statements.

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Grant Adams, Manager - Mine Planning Services.

Directors' Report

19. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under Section 307C of the *Corporations Act 2001* is attached to the directors' report.

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Ian Hutton, Payroll Manager, and Grace Tuazon, Payroll Officer.

Directors' Report

20. 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
9 September 2008

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A dozer at Moorvale Mine.

Directors' Report

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

To the directors of Macarthur Coal Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Warren Austin
Partner

Brisbane
9 September 2008

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

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Financial Performance

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INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Revenue from coal sales		400,231	362,796	-	-
Cost of coal sold		(263,446)	(254,808)	-	-
Gross Profit		136,785	107,988	-	-
Other income	7	40,332	14,752	64,259	58,454
Distribution expenses		(34,076)	(22,315)	-	-
Administration expenses		(15,174)	(13,955)	(11,976)	(8,795)
Other expenses	8	(10,195)	(4,498)	(34,470)	(139)
Results from operating activities		117,672	81,972	17,813	49,520
Financial income	11	7,784	17,028	12,476	22,803
Financial expenses	11	(5,825)	(4,295)	(5,705)	(4,491)
Net financial income		1,959	12,733	6,771	18,312
Share of profit/(loss) of equity accounted investees, net of income tax	31	(3,666)	-	(221)	-
Profit before income tax		115,965	94,705	24,363	67,832
Income tax (expense)/benefit	12(a)	(43,281)	(28,161)	(11,734)	(4,148)
Profit for the year attributable to equity holders of the Company		**72,684**	**66,544**	**12,629**	**63,684**
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share from continuing operations	14	$0.36	$0.36		
Diluted earnings per share from continuing operations	14	$0.36	$0.36		
Dividends per share – ordinary shares	28	**$0.17**	**$0.18**		

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 57 to 129.

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STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Recognised directly in equity					
Cash flow hedges:					
Fair value gains/(losses) taken to equity		19,933	17,448	-	-
Fair value (gains)/losses transferred to income statement		(15,242)	(7,018)	-	-
Net change in fair value of available-for-sale financial assets		870	6,584	870	6,584
Net change in fair value of available-for-sale financial assets transferred to income statement		(1,873)	(5,581)	(1,873)	(5,581)
Income and expense recognised directly in equity	28	3,688	11,433	(1,003)	1,003
Profit for the period		72,684	66,544	12,629	63,684
Total recognised income and expense for the period attributable to equity holders of the Company	28	**76,372**	**77,977**	**11,626**	**64,687**

Other movements in equity arising from transactions with owners as owners are set out in Note 28.

The amounts recognised directly in equity are disclosed net of tax – see Notes 12 and 13 for tax effect.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 57 to 129.

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BALANCE SHEETS AS AT 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Current assests					
Cash and cash equivalents	15	22,478	96,565	627	21,964
Trade and other receivables	16	119,536	35,690	92,907	88,786
Inventories	17	27,626	28,627	-	-
Other financial assets	18	42,689	57,695	-	33,115
Income tax receivable	13	15,439	-	15,439	-
Overburden in advance	19	143,501	105,552	-	-
Assets classified as held for sale	20	-	33,779	-	-
Total current assets		371,269	357,908	108,973	143,865
Non-current assets					
Trade and other receivables	16	2,701	3,523	132,173	158,551
Investments in equity accounted investees	31	338,582	-	31,935	-
Inventories	17	265	4,678	-	-
Investments in controlled entities	18	-	-	357,686	73,343
Deferred tax assets	13	-	-	639	748
Property, plant and equipment	21	189,503	177,471	956	866
Exploration and evaluation assets	22	76,600	66,303	-	-
Overburden in advance	19	31,646	2,765	-	-
Intangible assets	36	26,700	-	-	-
Total non-current assets		665,997	254,740	523,389	233,508
Total assets		**1,037,266**	**612,648**	**632,362**	**377,373**
Current liabilities					
Trade and other payables	23	138,789	81,416	41,800	2,055
Loans and borrowings	24	7,156	3,376	-	-
Income tax payable	13	-	6,770	-	6,770
Employee benefits	25	2,714	1,703	665	439
Provisions	26	1,966	1,030	-	-
Other financial liabilities	27	2,603	3,795	-	2,000
Total current liabilities		153,228	98,090	42,465	11,264
Non-current liabilities					
Trade and other payables	23	-	-	117,808	104,907
Loans and borrowings	24	41,359	13,953	-	-
Deferred tax liabilities	13	95,157	56,941	-	-
Employee benefits	25	144	117	77	117
Provisions	26	23,776	19,829	97	90
Other financial liabilities	27	33,126	8,908	-	-
Total non-current liabilities		193,562	99,748	117,982	105,114
Total liabilities		**346,790**	**197,838**	**160,447**	**116,378**
Net assets		**690,476**	**414,810**	**471,915**	**260,995**
Equity					
Share capital	28	465,118	246,343	465,118	246,343
Reserves	28	17,941	14,253	-	1,003
Retained earnings	28	207,417	154,214	6,797	13,649
Total equity	28	**690,476**	**414,810**	**471,915**	**260,995**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 57 to 129.

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STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Cash flows from operating activities					
Cash receipts from customers		348,549	382,767	4,034	3,634
Cash paid to suppliers and employees		(364,205)	(304,456)	(11,409)	(7,866)
Cash generated from operations		(15,656)	78,311	(7,375)	(4,232)
Dividends received		-	-	19,481	54,340
Interest received		5,109	9,055	9,801	14,830
Interest paid		-	-	(5,705)	(4,491)
Income taxes paid		(25,321)	(57,236)	(25,321)	(57,236)
Net cash from operating activities	37	**(35,868)**	**30,130**	**(9,119)**	**3,211**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		23	170	-	-
Acquisition of property, plant and equipment		(16,348)	(19,829)	(261)	(209)
Acquisition of equity securities		-	(51,974)	-	(51,974)
Proceeds from sale of equity securities		34,357	28,264	34,357	28,264
Proceeds from exploration and evaluation assets		-	16,870	-	-
Exploration and evaluation expenditure		(8,522)	(8,421)	-	-
Proceeds from sale of assets	36	48,500	49,497	48,500	-
Payments for other acquisitions, net of cash acquired	36	(55,516)	(34,254)	(65,568)	-
Payments for assets held for sale		-	(20,689)	-	-
Contributions from joint ventures		375,243	322,408	-	-
Contributions to joint ventures		(386,151)	(322,164)	-	-
Advances from controlled entities		-	-	229,031	226,902
Advances to controlled entities		-	-	(233,859)	(147,928)
Advances from related parties		6,047	3,068	501	-
Advances to related parties		(29,239)	(3,766)	(5,438)	-
Net cash from investing activities		**(31,606)**	**(40,820)**	**7,263**	**55,055**
Cash flows from financing activities					
Proceeds from loans and borrowings		40,069	-	-	-
Repayment of loans and borrowings		(20,307)	(1,139)	-	-
Payment of financial expenses		(2,092)	(1,621)	-	-
Repayment of other financial liabilities		(2,383)	(1,926)	-	-
Payments for lease liabilities		(2,419)	(2,322)	-	-
Dividends paid	28	(19,481)	(54,340)	(19,481)	(54,340)
Net cash from financing activities		**(6,613)**	**(61,348)**	**(19,481)**	**(54,340)**
Net (decrease)/increase in cash and cash equivalents		(74,087)	(72,038)	(21,337)	3,926
Cash and cash equivalents at 1 July		96,565	168,603	21,964	18,038
Cash and cash equivalents at 30 June	15	**22,478**	**96,565**	**627**	**21,964**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 57 to 129.

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1. REPORTING ENTITY

Macarthur Coal Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 18, 215 Adelaide St, Brisbane QLD 4000. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The principal activities of the Group are exploration, project evaluation and coal mining activities in Queensland's Bowen Basin.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report of the Group and the financial report of the Company also comply with IFRS's and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 9 September 2008.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that derivative financial instruments and available-for-sale financial assets are measured at their fair value.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

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, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

These estimates and associated assumptions are based on historic 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. These accounting policies have been consistently applied by each entity in the Group. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discussed with the Audit and Risk Management Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are discussed below.

Key sources of estimation uncertainty and judgements

Financial Instruments

Contained in Note 29 is analysis of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

The recognition and measurement of derivative liabilities disclosed in Note 27, requires that certain estimations and assumptions be made in determining the fair value of the underlying transaction which results in the recognition of the derivative liabilities. Factors affecting future project fair value such as reserves, coal pricing, and production costs are considered.

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2. BASIS OF PREPARATION (cont)

(d) Use of estimates and judgements (cont)

Key sources of estimation uncertainty and judgements (cont)

Rehabilitation and dismantling provisions

As set out in Note 3(n) and Note 26, certain assumptions are required to be made in determining the amount the Group is expected to incur to settle its obligations in relation to rehabilitation of the mine sites and dismantling of infrastructure. The discounted value reflects a combination of management's assessment of the cost of performing the work required, future changes in prices affecting rehabilitation and dismantling costs, the timing of future cash flow estimates, the life of the mines based on economically recoverable reserves, being 51,749,800 (2007: 58,053,600) tonnes for the Coppabella Mine and 14,844,996 (2007: 16,529,033) tonnes for the Moorvale Mine at the beginning of the financial year and the discount rate of 8.61% (2007: 7.34%).

Recoverability of non-current assets

As set out in Note 3(k), certain assumptions are required to be made in order to assess the recoverability of non-current assets where there is an impairment indicator. Key assumptions include the future coal price, future cash flows, an estimated discount rate and estimates of coal reserves. Estimates of coal reserves in themselves are dependant on various assumptions, in addition to those described above, including operating cost assumptions. Changes in these estimates could materially impact on coal reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation.

Contingent liabilities – litigation

Certain claims have been made on the Group. Judgements about the validity of the claims have been made by the directors. Further details are included in Note 33.

Lease classification

As set out in Note 3(h), leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Hedge accounting

As set out in Note 3(c), management's judgement is necessary when determining whether a derivative financial instrument qualifies for hedge accounting. Factors such as forecast demand, production and port allocation are considered when assessing whether forecast transactions are highly probable as required under AASB 139: *Financial Instruments: Recognition and Measurement*.

Business combinations

Certain assumptions have been made with regard to the fair value of net assets acquired. Further details are contained in Note 36.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

During the year ended 30 June 2008, consumable tyres not expected to be consumed in the next 12 months were reclassified from property, plant and equipment to non-current inventories in the balance sheet to reflect more appropriately how tyres are used in operations. Comparative amounts were reclassified for consistency.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(a) Basis of consolidation (cont)

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

In the Company's financial statements, investments in associates and jointly controlled entities are carried at cost.

Jointly controlled operations and assets

The interest of the Group in jointly controlled operations (including unincorporated joint ventures) and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the dates that fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Accounting for financial income and expenses is discussed in Note 3(q).

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(k)), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency exposures. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments exist in relation to contractual obligations and an option for the sale of shares in a jointly controlled entity to a third party in line with pre-determined triggering events in the future. For further detail refer to Note 27.

Derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are accounted for as described below.

Where derivative financial instruments do not qualify for hedge accounting, recognition of any change in the fair value, results in the gain or loss being taken to the income statement.

Where derivative financial instruments qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (refer below).

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) Financial instruments (cont)

Derivative financial instruments (cont)

Cash flow hedges

Changes in fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects the income statement.

De-recognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the rights to receive cash flows from the asset have expired;

(ii) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either:

  (a) has transferred substantially all the risks and rewards of the asset, or

  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

(d) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(e) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see Note 3(k)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.
The cost of self-constructed assets and acquired assets includes:

(i) the initial estimate at the time of installation and during the period of use, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located; and

(ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(e) Property, plant and equipment (cont)

Recognition and measurement (cont)

Mining property and development assets include costs transferred from exploration and evaluation assets once feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Depreciation

Freehold land is not depreciated. Assets that have limited useful lives are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of mining property and development assets. Mining property and development assets are depreciated on a units of production basis over the life of the economically recoverable reserves, being 51,749,800 (2007: 58,053,600) tonnes for the Coppabella Mine and 14,844,996 (2007: 16,529,033) tonnes for the Moorvale Mine at the beginning of the financial year, or over the estimated useful life of the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Assets are depreciated from the date they are available for use.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying amount of another asset (e.g. inventory stocks) as an allocation of production overheads.

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

	2008	2007
Property, plant and equipment		
Mining property and development	UOP[1]	UOP[1]
Buildings and infrastructure	6.3% – 40%	6.5% – 40%
Plant and equipment	5% – 40%	13%– 40%
Leased assets	4.5% – 20%	20%

[1] Depreciated on a units of production (UOP) basis over reserves, refer above.

Useful lives and residual values are re-assessed at the reporting date.

Development costs

Development costs related to an area of interest are capitalised if the expenditures are expected to be recouped through sale or successful exploitation of the area of interest. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see Note 3(k)), and is included in Property, plant and equipment – Mining property and development (see above).

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(f) Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets separately for each area of interest. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability, and

(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see Note 3(k)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

(g) 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. Overburden in advance is measured at the lower of cost and net realisable value. 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 impaired (see Note 3(k)).

(h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognised on the Group's balance sheet.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is allocated on a monthly first-in first-out basis and includes direct material, consumption of overburden in advance, 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 normal operating capacity. Depreciation is allocated to inventories on a units-of-production basis.

(j) Goodwill

Goodwill arises on acquisition of subsidiaries, associates and jointly controlled entities.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(k) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories (see Note 3(i)), overburden in advance (see Note 3(g)) and deferred tax assets (see Note 3(r)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets, that have indefinite useful lives, the recoverable amount is estimated at each balance date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group's of assets ("the cash generating unit").
The goodwill acquired in a business combination, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.
In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(l) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.
Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

(m) Employee benefits

Defined contribution superannuation plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay any further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in the profit and loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Other long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating the terms of the Group's obligations.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate the employment before the normal retirement date.

Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share based payment transactions

The fair value of shares granted under the employee share loan plan is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the shares. The fair value is measured at grant date and is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the shares were granted.

Non-executive directors are entitled to 10,000 Company securities each year as part of their director's fees. The shares are purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The provision of shares is not subject to performance conditions.

The fair value of shares granted to non-executive directors is recognised as an expense.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(m) Employee benefits (cont)

Share based payment transactions (cont)

Employee loans

The employee share loan plan allows eligible persons of the Group and approved contractors to acquire shares of the Company. Eligible persons include permanent full-time or part-time employees, eligible contractors, or an agent of the Company or a related body corporate. No up-front payment is required for the shares as the Company offers all eligible persons an interest-free, limited-recourse loan. Any dividends received on the allocated shares are applied to repay the loan balance.

Fixed regular loan repayments are also made to repay the loan balance. The shares are purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The outstanding loan balance is recognised as a receivable at amortised cost less impairment losses (see Note 3(k)).

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Rehabilitation and dismantling

Provisions are made, when the areas are disturbed, for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. 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, discounted to their present value based on expected future cashflows. The estimated cost of rehabilitation includes the current cost of re-contouring, topsoiling and revegetation employing legislative requirements. 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 and on the basis of current environmental legislation.

Infrastructure assets and dismantling

The present value of rehabilitation and dismantling obligations is recognised on construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the income statement. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the write-down recognised in the income statement in the period in which it occurs.

Non-infrastructure areas

Rehabilitation obligations relating to non-infrastructure areas are discounted to their present value based on expected future cashflows. At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, timing or amount of the costs to be incurred and areas to be rehabilitated. Any changes in the liability are recognised in the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(n) Provisions (cont)

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(o) Revenue

Goods sold

Revenue from the sale of coal is measured at the fair value of the consideration received or receivable, net of penalties, returns, discounts, allowances and hedging gains/losses. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(p) Expenses

Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(q) Financial income and expenses

Financial income and expenses comprise interest payable on borrowings using the effective interest rate method, interest receivable on funds invested, amortisation of ancillary costs incurred in connection with arrangement of borrowings, unwinding of the discount on provisions, and gains and losses on hedging instruments that are recognised in the income statement (see Note 3(c)).

Borrowing costs are expensed as incurred, unless costs relate to a qualifying asset, and included in financial expenses using the effective interest method. Borrowing costs relating to a qualifying asset, being an asset that necessarily takes a substantial period to prepare for its intended use, are capitalised as part of the cost of the asset.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(r) Income tax (cont)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax consolidation

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Macarthur Coal Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses, as a result of revised assessments of the probability of recovery are recognised by the head entity only.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(r) Income tax (cont)

Nature of tax funding arrangements and tax sharing agreements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(t) Goods and services tax

Revenue, 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 Tax Office (ATO) is included as a current asset or liability in the balance sheet.

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

(u) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont)

(v) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see Note 6). The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements. As the Group presently capitalises borrowing costs directly attributable to qualifying assets (see Note 3(q)), there is no potential effect of the revised standard on the Group's financial reports.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

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4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant and equipment is based on the quoted market prices for similar items.

Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Trade and other receivables/payables

The fair value of trade and other receivables/payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Loans and borrowings

Fair value, which is determined for disclosure purposes, is calculated based on discounted expected future principal and interest cash flows for finance leases. The market rate of interest is determined by reference to similar lease agreements.

Derivatives

Foreign currency derivative contracts are either marked to market using listed market prices or by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

Financial derivatives relating to contractual obligations and an option for the sale of shares in a jointly controlled entity to a third party are measured based on the fair value of the underlying entity to which the shares relate. The underlying entity is valued based on a discounted life of mine cash-flow approach.

Share-based payment transactions

The fair value of shares granted under the employee share loan plan is measured using a binomial option-pricing model, taking into account the terms and conditions upon which the shares were granted. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

Financial guarantees

For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

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5. FINANCIAL RISK MANAGEMENT

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has an Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee also oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

The Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. For the Company it arises from receivables due from subsidiaries.

Trade and other receivables

The Audit and Risk Management Committee has established a credit administration policy with the exposure to credit risk being monitored on an ongoing basis.

The credit risk on financial assets of the Group, which have been recognised on the balance sheet, is the carrying amount, net of impairment.

The Group minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries. Credit risk on customers is also reduced by entering into letters of credit with customers or utilising trade finance as considered necessary.

The Company's and Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 28% (2007: 29%) of the Group's revenue is attributable to sales transactions with a single customer. However, geographically there is no concentration of credit risk.

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5. FINANCIAL RISK MANAGEMENT (cont)

Credit risk (cont)

Trade and other receivables (cont)

Concentration of credit risk at balance date on trade receivables is: Asia 23% (2007: 88%), Europe 27% (2007: 12%), Americas 20% (2007: Nil%) and Other 30% (2007: Nil%). The geographical mix at year end for trade receivables is influenced by the timing of shipments to customers during the month of June. This arises due to the fact that the majority of sales are trade financed and therefore settled within a short timeframe following sales recognition. To give a better understanding of the average exposure over the course of a year, the 2008 sales distribution by geographic regions is Asia 38%, Europe 39%, Americas 14% and Other 9% (2007: Asia 43%, Europe 34%, Americas 21% and Other 2%).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

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.

The Audit and Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the CEO; these limits are reviewed annually. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a letter of credit basis.

The Company and Group have made no allowance for impairment of receivables. Given the size and good credit standing of the customers with which the Group deals, management have assessed the probability of loss as being remote.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A2 from Standard & Poor's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Company and Group have provided financial guarantees, details of which are provided in Note 33.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group utilises an 8 week rolling cash flow forecast compared to its unused facilities to ensure that it has sufficient cash on demand as and when required over that forecasting period, including the servicing of financial obligations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

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5. FINANCIAL RISK MANAGEMENT (cont)

Market risk (cont)

Currency risk

The Group is exposed to currency risk predominantly on sales, and to some extent purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD). The currency in which these transactions primarily are denominated are USD.

At any point in time the Group hedges 85% of its estimated foreign currency exposure in respect of forecast sales for fixed price contracts (generally for a 12 month period). The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of up to 12 months.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge and no derivatives are entered into.

Interest rate risk

The Group adopts a policy of ensuring that an appropriate amount of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps. As at 30 June 2008 and 2007 there were no interest rate swaps in place.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Group's capital and funding position, through key ratio analysis. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

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 comprise mainly 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 period to acquire segment assets that are expected to be used for more than one period .

All segments are continuing operations.

Business segments

The Group comprises the following main business segments:

Operating coal mines:
Coppabella and Moorvale mines

Exploration and evaluation:
Various tenements in the exploration and evaluation phase, including those in mine development

Other:
Corporate and other business development activities

Geographical segments

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

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Segment assets are based on the geographical location of assets.

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6. SEGMENT REPORTING (cont)

Business segments

	Operating coal mines	Exploration & evaluation*	Other	Eliminations	Consolidated
	$'000	$'000	$'000	$'000	$'000
30 June 2008					
Total external sales revenue	400,231	-	-	-	**400,231**
Inter-segment revenue	-	-	-	-	-
Total segment revenue	**400,231**	-	-	-	**400,231**
Segment result	97,173	(277)	20,776	-	**117,672**
Unallocated expenses					-
Results from operating activities					**117,672**
Net financial income					**1,959**
Share of profit/(loss) of equity accounted investees					**(3,666)**
Income tax expense					**(43,281)**
Profit for the period					**72,684**
Segment assets	637,907	481,305	251,611	(333,557)	**1,037,266**
Segment liabilities	384,456	131,506	164,385	(333,557)	**346,790**
Cash flows from operating activities	(4,596)	108	(31,380)	-	**(35,868)**
Cash flows from investing activities	(46,504)	(8,522)	23,420	-	**(31,606)**
Cash flows from financing activities	12,868	-	(19,481)	-	**(6,613)**
Capital expenditure	20,328	5,008	255	-	**25,591**
30 June 2007					
Total external sales revenue	362,796	-	-	-	**362,796**
Inter-segment revenue	-	-	-	-	-
Total segment revenue	**362,796**	-	-	-	**362,796**
Segment result	93,478	9,980	(21,486)	-	**81,972**
Unallocated expenses					-
Results from operating activities					**81,972**
Net financial income					**12,733**
Share of profit/(loss) of equity accounted investees					-
Income tax expense					**(28,161)**
Profit for the period					**66,544**
Segment assets	496,686	182,409	300,033	(366,480)	**612,648**
Segment liabilities	272,404	175,801	116,113	(366,480)	**197,838**
Cash flows from operating activities	95,729	-	(65,599)	-	**30,130**
Cash flows from investing activities	(16,076)	(825)	(23,919)	-	**(40,820)**
Cash flows from financing activities	(6,877)	(131)	(54,340)	-	**(61,348)**
Assets classified as held for sale	-	33,779	-	-	**33,779**
Capital expenditure	30,754	7,505	209	-	**38,468**
Impairment loss reversals	(91)	-	-	-	**(91)**

* including mine development

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6. SEGMENT REPORTING (cont)

	Asia	Europe	Americas	Other regions	Consolidated
	$'000	$'000	$'000	$'000	$'000
Geographical segments					
30 June 2008					
Revenue from external customers	152,016	154,338	55,940	37,937	**400,231**
Segment assets	-	-	-	1,037,266	**1,037,266**
Capital expenditure	-	-	-	25,591	**25,591**
30 June 2007					
Revenue from external customers	156,747	122,421	74,477	9,151	**362,796**
Segment assets	-	-	-	612,648	**612,648**
Capital expenditure	-	-	-	38,468	**38,468**

7. OTHER INCOME

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Management fee – related parties	196	234	4,122	4,114
Dividends – related parties	-	-	19,481	54,340
Net gain on sale of controlling interest in subsidiary	35,556	-	40,656	-
Net gain on disposal of non-current assets	-	13,154	-	-
Sundry – other parties	4,580	1,364	-	-
	40,332	**14,752**	**64,259**	**58,454**

During the year ended 30 June 2008, the Group sold a 19.61% interest in Monto Coal 2 Pty Ltd to Paway Limited for $48,500,000 in cash.

During the year ended 30 June 2007, the Group sold a 16.7% interest in the Olive Downs North project and a 26.7% interest in the undeveloped Moorvale Pits C&D to partners in the Coppabella and Moorvale Joint Venture for $16,870,000 in cash.

8. OTHER EXPENSES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Net foreign exchange losses	2,529	2,137	-	-
Exploration and evaluation expensed as incurred	363	916	-	-
Increase in rehabilitation provision	730	663	-	-
Depreciation	(335)	(203)	169	139
Reversal of impairment loss on receivables	-	(91)	-	-
Net loss on disposal of non-current assets	8	1,076	-	-
Wet weather induced write-offs	6,900	-	-	-
Intercompany debt forgiveness	-	-	34,301	-
	10,195	**4,498**	**34,470**	**139**

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9. PERSONNEL EXPENSES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Wages and salaries	4,329	4,447	2,726	2,243
Other associated personnel expenses	444	(47)	1,255	1,340
Contributions to defined contribution superannuation funds	387	385	387	385
Increase in liability for annual leave	552	1,231	121	35
(Decrease)/increase in liability for long-service leave	132	(73)	64	(73)
Increase in liability for sick leave	354	191	-	-
Termination benefits	117	235	54	235
	6,315	**6,369**	**4,607**	**4,165**

10. AUDITORS' REMUNERATION

	$	$	$	$
Audit services				
Auditors of the Company – KPMG				
■ Audit and review of financial reports [A]	255,450	189,000	255,450	189,000
■ Audit of joint venture operations [C]	155,836	138,904	-	-
■ Other regulatory audit services [A]	4,700	-	4,700	-
	415,986	**327,904**	**260,150**	**189,000**
Other services				
Auditors of the Company – KPMG				
■ Other assurance services [A][B]	80,178	12,000	80,178	12,000
■ Corporate governance and forensic services	179,398	30,245	179,398	30,245
■ Taxation services [A]	61,745	72,335	61,745	72,335
■ Due diligence and related services	215,584	-	215,584	-
■ Joint venture operations [C]				
Other services [D]	27,377	10,379	-	-
KPMG related practices				
■ Other [E]	-	27,107	-	27,107
	564,282	**152,066**	**536,905**	**141,687**

[A] All auditors' remuneration is borne by the Company for the Group.

[B] Represents advice in relation to accounting.

[C] Represents the Group's share of remuneration paid for audit and other services incurred by joint ventures.

[D] Represents tax advice, forensic services and other assurance services.

[E] Represents license and other fees paid to a related entity, of which KPMG held a 50% interest, for purchase of tax compliance software by the Group.

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11. FINANCIAL INCOME AND EXPENSES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Recognised in the income statement				
Interest income	5,109	9,055	9,801	14,830
Net gain on disposal of available-for-sale financial assets transferred from equity	2,675	7,973	2,675	7,973
Financial income	7,784	17,028	12,476	22,803
Interest expense	(5,825)	(4,295)	(5,705)	(4,491)
Financial expenses	(5,825)	(4,295)	(5,705)	(4,491)
Net financial income	**1,959**	**12,733**	**6,771**	**18,312**

12. INCOME TAX EXPENSE

(a) Recognised in the income statement				
Current tax expense				
Current period	3,707	21,580	11,281	4,509
Adjustments for prior periods	(546)	(2,332)	(589)	270
	3,161	19,248	10,692	4,779
Deferred tax expense				
Origination and reversal of temporary differences	40,120	8,913	1,042	(631)
	40,120	8,913	1,042	(631)
Total income tax expense/(benefit) from continuing operations	**43,281**	**28,161**	**11,734**	**4,148**
(b) Numerical reconciliation between tax expense and pre-tax net profit				
Profit for the period – continuing operations	72,684	66,544	12,629	63,684
Total income tax expense/(benefit)	43,281	28,161	11,734	4,148
Profit excluding income tax	**115,965**	**94,705**	**24,363**	**67,832**
Income tax using the domestic corporation tax rate of 30% (2007: 30%)	34,790	28,411	7,309	20,350
Increase in income tax expense due to:				
■ Non-deductible expenses	8,606	213	10	8
■ Intercompany debt forgiveness	-	-	10,290	-
Decrease in income tax expense due to:				
■ Tax exempt income and other items	(120)	(555)	(5,886)	(16,302)
	43,276	28,069	11,723	4,056
Under/(over) provided in prior years	5	92	11	92
	43,281	**28,161**	**11,734**	**4,148**
(c) Income tax recognised directly in equity				
Foreign currency derivative contracts	2,121	5,263	-	-
Available-for-sale financial assets – investments in equity securities	(430)	430	(430)	430
	1,691	**5,693**	**(430)**	**430**

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13. TAX ASSETS AND LIABILITIES

Current tax assets and liabilities

The current tax asset for the Group of $15,439,000 (2007: $6,770,000 liability) and for the Company of $15,439,000 (2007: $6,770,000 liability) represent the amount of income taxes receivable (2007: payable) in respect of current and prior financial periods.

The Company asset (2007: liability) includes the income tax receivable (2007: payable) by all members of the tax consolidated group.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Consolidated						
Property, plant and equipment	-	-	1,780	2,372	1,780	2,372
Employee benefits	(857)	(546)	-	-	(857)	(546)
Inventories	-	-	876	397	876	397
Loans and borrowings	(2,534)	(2,873)	-	-	(2,534)	(2,873)
Provisions	(7,723)	(6,258)	-	-	(7,723)	(6,258)
Amounts payable for future user charges	(2,673)	(3,211)	-	-	(2,673)	(3,211)
Overburden in advance	-	-	53,407	32,506	53,407	32,506
Mining property and development	-	-	15,645	17,248	15,645	17,248
Exploration and evaluation	-	-	18,213	22,632	18,213	22,632
Foreign currency derivative contracts	-	-	7,689	5,568	7,689	5,568
Other items	-	(12,135)	5,060	1,241	5,060	(10,894)
Investments in equity accounted investees	-	-	6,274	-	6,274	-
Tax (assets)/liabilities	(13,787)	(25,023)	108,944	81,964	95,157	56,941
Set off of tax	13,787	25,023	(13,787)	(25,023)	-	-
Net tax (assets)/liabilities	-	-	**95,157**	**56,941**	**95,157**	**56,941**
Company						
Property, plant and equipment	-	-	28	13	28	13
Employee benefits	(222)	(167)	-	-	(222)	(167)
Provisions	(29)	(27)	-	-	(29)	(27)
Other items	(416)	(997)	-	430	(416)	(567)
Tax (assets)/liabilities	(667)	(1,191)	28	443	(639)	(748)
Set off of tax	28	443	(28)	(443)	-	-
Net tax (assets)/liabilities	**(639)**	**(748)**	-	-	**(639)**	**(748)**

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13. TAX ASSETS AND LIABILITIES (cont)

Unrecognised deferred tax assets

Deferred tax assets have not been brought to account in respect of the following items:

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Investments in equity accounted investees	1,488	-	3,103	-

The deferred tax assets have not been recognised in respect of these items because it is not probable that future capital gains will be available against which the Group and the Company can utilise these benefits.

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13. TAX ASSETS AND LIABILITIES (cont)

Movement in temporary differences during the year

	Consolidated				
	Balance 30 June 07 $'000	Recognised in income statement $'000	Recognised in equity/ transfers $'000	Business combinations/ deconsolidation $'000	Balance 30 June 08 $'000
Property, plant and equipment	2,372	(592)	-	-	1,780
Inventories	397	479	-	-	876
Loans and borrowings	(2,873)	339	-	-	(2,534)
Employee benefits	(546)	(311)	-	-	(857)
Provisions	(6,258)	(1,465)	-	-	(7,723)
Amounts payable for future user charges	(3,211)	538	-	-	(2,673)
Overburden in advance	32,506	20,901	-	-	53,407
Mining property and development	17,248	(1,603)	-	-	15,645
Exploration and evaluation	22,632	3,173	-	(7,592)	18,213
Other items	(10,894)	11,884	(430)	4,500	5,060
Foreign currency derivative contracts	5,568	-	2,121	-	7,689
Investments in equity accounted investees	-	-	-	6,274	6,274
Tax losses	-	503	(503)	-	-
	56,941	**33,846**	**1,188**	**3,182**	**95,157**

	Balance 30 June 06 $'000	Recognised in income statement $'000	Recognised in equity/ transfers $'000	Business combinations/ deconsolidation $'000	Balance 30 June 07 $'000
Property, plant and equipment	2,434	(62)	-	-	2,372
Inventories	(36)	433	-	-	397
Loans and borrowings	(3,215)	342	-	-	(2,873)
Employee benefits	(198)	(348)	-	-	(546)
Provisions	(5,984)	(274)	-	-	(6,258)
Amounts payable for future user charges	(3,719)	508	-	-	(3,211)
Overburden in advance	23,133	9,373	-	-	32,506
Mining property and development	19,091	(1,843)	-	-	17,248
Exploration and evaluation	17,354	5,278	-	-	22,632
Foreign currency derivative contracts	305	-	5,263	-	5,568
Other items	(6,830)	(4,494)	430	-	(10,894)
	42,335	**8,913**	**5,693**	-	**56,941**

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13. TAX ASSETS AND LIABILITIES (cont)

Movement in temporary differences during the year (cont)

	Company			
	Balance 30 June 07 $'000	Recognised in income statement $'000	Recognised in equity/ transfers $'000	Balance 30 June 08 $'000
Property, plant and equipment	13	15	-	28
Inventories	-	-	-	-
Loans and borrowings	-	-	-	-
Employee benefits	(167)	(55)	-	(222)
Provisions	(27)	(2)	-	(29)
Amounts payable for future user charges	-	-	-	-
Overburden in advance	-	-	-	-
Mining property and development	-	-	-	-
Exploration and evaluation	-	-	-	-
Other items	(567)	581	(430)	(416)
Foreign currency derivative contracts	-	-	-	-
Investments in equity accounted investees	-	-	-	-
Tax losses	-	503	(503)	-
	(748)	**1,042**	**(933)**	**(639)**

	Balance 30 June 06 $'000	Recognised in income statement $'000	Recognised in equity/ transfers $'000	Balance 30 June 07 $'000
Property, plant and equipment	7	6	-	13
Inventories	-	-	-	-
Loans and borrowings	-	-	-	-
Employee benefits	(178)	11	-	(167)
Provisions	(29)	2	-	(27)
Amounts payable for future user charges	-	-	-	-
Overburden in advance	-	-	-	-
Mining property and development	-	-	-	-
Exploration and evaluation	-	-	-	-
Foreign currency derivative contracts	-	-	-	-
Other items	(347)	(650)	430	(567)
	(547)	**(631)**	**430**	**(748)**

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14. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the profit attributable to ordinary shareholders of $72,684,000 (2007: $66,544,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 198,716,394 (2007: 187,380,346), calculated as follows:

	Consolidated	
	2008 $'000	2007 $'000
Profit attributable to ordinary shareholders		
Profit attributable to ordinary shareholders	72,684	66,544
Weighted average number of ordinary shares	Number	Number
Issued ordinary shares at 1 July	187,380,346	187,380,346
Effect of shares issued in January 2008	11,336,048	-
Weighted average number of ordinary shares at 30 June	**198,716,394**	**187,380,346**

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2008 was based on profit attributable to ordinary shareholders of $72,684,000 (2007: $66,544,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 198,716,394 (2007: 187,380,346), calculated as follows:

	Consolidated	
	2008 $'000	2007 $'000
Profit attributable to ordinary shareholders (diluted)		
Net profit attributable to ordinary shareholders (diluted)	72,684	66,544
Weighted average number of ordinary shares (diluted)	Number	Number
Weighted average number of ordinary shares (diluted) at 1 July	187,380,346	187,380,346
Effect of shares issued in January 2008	11,336,048	-
Weighted average number of ordinary shares (diluted) at 30 June	**198,716,394**	**187,380,346**

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15. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash at bank and in hand	19,725	9,016	627	4,985
Bank at call deposits	-	8,277	-	964
Bank term deposits	2,753	79,272	-	16,015
Cash and cash equivalents in the statement of cash flows	**22,478**	**96,565**	**627**	**21,964**

The effective interest rate on bank at call deposits was Nil% (2007: 5.9%). The effective interest rate on bank term deposits was 2.4% (2007: 6.2%). The deposits had an average maturity of 7 days (2007: 55 days). Included in bank term deposits for 2007, was $6,034,000 which was restricted for use by the Group as such is held as security against bank guarantees provided (refer Note 33).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 29.

16. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Trade receivables	19,304	5,509	-	-
Other receivables and prepayments	18,475	14,265	581	2,274
Tax related receivables	-	-	87,410	85,391
Amounts receivable from related entities – unsecured	81,757	15,916	4,916	1,121
	119,536	**35,690**	**92,907**	**88,786**
Non-current				
Security deposits	145	144	-	-
Other receivables and prepayments	1,840	3,055	-	-
Loans to employees – Employee Share Plan	117	324	117	324
Amounts receivable from related entities – unsecured	599	-	-	-
Amounts receivable from controlled entities – unsecured	-	-	132,056	158,227
	2,701	**3,523**	**132,173**	**158,551**

Current receivables due from related entities – unsecured are shown net of impairment losses of $Nil (2007: $91,000 impairment loss reversal) recognised in the current year. Non-current receivables due from related entities – unsecured are shown net of impairment losses of $Nil (2007: $Nil) recognised in the current year.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 29.

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17. INVENTORIES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Raw materials and consumables, at cost	14,803	2,069	-	-
Coal stocks, at the lower of cost and net realisable value	12,823	26,558	-	-
	27,626	**28,627**	-	-
Non-current				
Raw materials and consumables, at cost	265	4,678	-	-
	265	**4,678**	-	-

Refer Note 24 for details of security over inventories.

Raw materials, consumables and changes in coal stocks recognised as cost of sales amounted to $195,267,000 (2007: $147,220,000). In 2008 the write-down of inventories to net realisable value amounted to $Nil (2007: $2,718,000). The write-downs are included in cost of sales.

18. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Cash and deposits – not at call	16,928	6,020	-	-
Available-for-sale financial assets – investments in equity securities	-	33,115	-	33,115
Foreign currency derivative contracts	25,761	18,560	-	-
	42,689	**57,695**	-	**33,115**
Non-current				
Investments in controlled entities – at cost	-	-	357,686	73,343
	-	-	**357,686**	**73,343**

Available-for-sale financial assets – investments in equity securities are investments in listed companies. These shares were disposed of by the Group during the year for proceeds of $34,357,000 resulting in a realised gain on sale of $2,675,000.

The Group's exposure to credit, currency and interest rate risks related to other financial assets is disclosed in Note 29.

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19. OVERBURDEN IN ADVANCE

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Overburden in advance	143,501	105,552	-	-
Non-current				
Overburden in advance	31,646	2,765	-	-

20. ASSETS CLASSIFIED AS HELD FOR SALE

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Assets held by controlled entities	-	33,779	-	-

In the prior year, the Group classified the net assets of two wholly owned subsidiaries, Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd as held for sale, planning to dispose of them in the current financial year. The arrangements relating to this planned disposal terminated subsequent to 30 June 2007. A new arrangement subsequently resulted in the disposal of 19.61% of Monto Coal 2 Pty Ltd (refer Note 36).

At 30 June 2007, the disposal group comprised net assets of $33,779,000.

Cash and cash equivalents		-	328	-	-
Trade and other receivables		-	14	-	-
Freehold land		-	14	-	-
Freehold land	21	-	1,228	-	-
Exploration and evaluation assets	22	-	32,295	-	-
Trade and other payables		-	(100)	-	-
		-	33,779	-	-

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21. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Mining property and development (including mining rights and coal resources)				
■ At cost	144,326	143,545	-	-
■ Less accumulated depreciation	(48,223)	(42,047)	-	-
	96,103	101,498	-	-
Freehold land				
■ At cost	3,730	3,730	-	-
Buildings and infrastructure				
■ At cost	81,439	74,829	-	-
■ Less accumulated depreciation	(37,109)	(29,036)	-	-
	44,330	45,793	-	-
Plant and equipment				
■ At cost	27,753	4,705	1,394	1,139
■ Less accumulated depreciation	(2,818)	(1,341)	(438)	(273)
	24,935	3,364	956	866
Leased assets				
■ At cost	20,822	8,544	-	-
■ Less accumulated depreciation	(2,391)	(854)	-	-
	18,431	7,690	-	-
Capital works in progress				
■ At cost	1,974	15,396	-	-
	189,503	**177,471**	**956**	**866**

Refer to Note 24 for details of security over property, plant and equipment.

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21. PROPERTY, PLANT AND EQUIPMENT (cont)

Reconciliations

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

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Mining property and development				
Carrying amount at beginning of year	101,498	107,390	-	-
Additions, including acquisitions through acquisition of interest in joint venture	2,319	1,925	-	-
Reclassification to exploration and evaluation assets	(1,537)	-	-	-
Depreciation	(6,177)	(7,817)	-	-
Carrying amount at end of year	**96,103**	**101,498**	-	-
Freehold land				
Carrying amount at beginning of year	3,730	4,958	-	-
Additions	6	-	-	-
Disposals, including disposals through deconsolidation	(1,234)	-	-	-
Transfers from/(to) assets classified as held for sale	1,228	(1,228)	-	-
Carrying amount at end of year	**3,730**	**3,730**	-	-
Buildings and infrastructure				
Carrying amount at beginning of year	45,793	50,989	-	-
Additions, including acquisitions through acquisition of interest in joint venture	-	818	-	-
Transfers from capital works in progress	6,752	1,158	-	-
Disposals	(145)	-	-	-
Depreciation	(8,070)	(7,172)	-	-
Carrying amount at end of year	**44,330**	**45,793**	-	-
Plant and equipment				
Carrying amount at beginning of year	3,364	3,037	866	798
Additions, including acquisitions through acquisition of interest in joint venture	309	836	261	209
Transfers from capital works in progress	22,763	58	-	-
Disposals	(23)	(81)	(2)	(2)
Depreciation	(1,478)	(486)	(169)	(139)
Carrying amount at end of year	**24,935**	**3,364**	**956**	**866**

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21. PROPERTY, PLANT AND EQUIPMENT (cont)

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Reconciliations (cont)				
■ Leased assets				
Carrying amount at beginning of year	7,690	-	-	-
Additions	12,277	9,827	-	-
Disposals	-	(1,283)	-	-
Depreciation	(1,536)	(854)	-	-
Carrying amount at end of year	**18,431**	**7,690**	-	-
■ Capital works in progress				
Carrying amount at beginning of year	15,396	3,733	-	-
Additions, including acquisitions through acquisition of interest in joint venture	16,093	12,879	-	-
Transfers to property, plant and equipment	(29,515)	(1,216)	-	-
Carrying amount at end of year	**1,974**	**15,396**	-	-

The following depreciation was recognised as an expense in the income statement:

Mining property and development	7,249	7,637		-
Buildings and infrastructure	8,373	7,185	-	-
Plant and equipment	1,456	486	169	139
Leased assets	1,472	854	-	-
	18,550	**16,162**	**169**	**139**

Leased assets

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment. The leased equipment secures lease obligations (refer Note 24). At 30 June 2008, the net carrying amount of leased assets was $18,431,000 (2007: $7,690,000).

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22. EXPLORATION AND EVALUATION ASSETS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Costs carried forward in respect of areas of interest in:				
■ Exploration and/or evaluation – intangible	76,600	66,303	-	-
	76,600	**66,303**	-	-
Cost				
Balance at beginning of year	66,303	94,809	-	-
Acquisitions of exploration and evaluation assets	329	-	-	-
Transfers from/(to) assets classified as held for sale	32,295	(32,295)	-	-
Disposals of exploration and evaluation assets on deconsolidation	(32,350)	(3,716)	-	-
Reclassification from property, plant and equipment	1,537	-	-	-
Exploration and evaluation costs capitalised	8,486	7,505	-	-
Balance at end of year	**76,600**	**66,303**	-	-

The ultimate recoupment of costs carried forward as exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

23. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Trade payables	17,813	4,908	816	241
Other payables and accrued expenses	80,976	75,365	984	671
Amounts payable to related entities	40,000	1,143	40,000	1,143
	138,789	**81,416**	**41,800**	**2,055**
Non-current				
Amounts payable to controlled entities – unsecured	-	-	**117,808**	**104,907**

The Group's exposure to currency and liquidity risk to trade and other payables is disclosed in Note 29.

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24. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's and the Group's interest-bearing loans and borrowings. For more information about the Company's and the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 29.

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current liabilities				
Finance lease liabilities	3,178	1,451	-	-
Secured bank loans	2,056	-	-	-
Deferred liability for acquisition of mining interest – unsecured	1,922	1,925	-	-
	7,156	**3,376**	-	-
Non-current liabilities				
Finance lease liabilities	15,047	6,301	-	-
Secured bank loans	19,786	-	-	-
Deferred liability for acquisition of mining interest – unsecured	6,526	7,652	-	-
	41,359	**13,953**	-	-

Deferred liability for acquisition of mining interest – unsecured

In December 2003 the Group purchased an additional 23.3% interest in the Coppabella Project. As part of the acquisition, the Group 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 Australian Accounting Standards the deferred liability has been reflected at its present value in the financial statements, discounted at 10.9% (2007: 10.7%) based on 6% interest plus risk adjusted margin.

Financial facilities				
Bank loans – Corporate Facility				
■ Amortising cash advance facility (2008: US$12,000,000 and 2007: US$18,000,000)	12,466	21,209	-	-
■ Revolving cash advance facility (US$20,000,000)	20,777	23,565	-	-
Bank Guarantee Facility	75,000	60,000	-	-
	108,243	**104,774**	-	-
Facilities utilised at reporting date				
Bank loans – Corporate Facility				
■ Amortising cash advance facility	8,289	-	-	-
■ Revolving cash advance facility	13,553	-	-	-
Bank Guarantee Facility	58,309	59,835	-	-
	80,151	**59,835**	-	-

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24. LOANS AND BORROWINGS (cont)

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Facilities not utilised at reporting date				
Bank loans – Corporate Facility				
■ Amortising cash advance facility (2008: US$12,000,000 and 2007: US$18,000,000)	4,177	21,209	-	-
■ Revolving cash advance facility (US$20,000,000)	7,224	23,565	-	-
Bank Guarantee Facility	16,691	165	-	-
	28,092	**44,939**	-	-

Corporate Facility

Bank Loans

During the year ended 30 June 2008 the Group continued to have access to a Corporate Facility.

The purpose of the Corporate Facility is to provide additional funds for general corporate purposes within the Group. The facility is held by a controlled entity, Coppabella Coal Pty Ltd. Bank loans provided as part of the Corporate Facility are:

1) Cash advance facility

a) Amortising cash advance facility

The facility limit is denominated in United States dollars as US$30,000,000 (2007: US$30,000,000) and is to be amortised on a straight line basis to 30 June 2010. A$8,289,000 (US$7,979,000) has been drawn down at 30 June 2008 (2007: ANil, USNil). The facility can be drawn in Australian dollars or United States dollars. The amortised facility limit at 30 June 2008 is US$12,000,000 (2007: US$18,000,000). A commitment fee of 0.45% (2007: 0.45%) per annum is payable on the unused portion of the amortising cash advance facility.

The interest rate applicable to the cash advance facility comprises BBSY (2007: LIBOR) plus a minimum margin of 0.95% per annum. The effective interest rate was 8.61% per annum at 30 June 2008 (2007: 6.31%).

b) Revolving cash advance facility

The revolving cash advance facility loan limit is denominated in United States dollars as US$20,000,000 (2007: US$20,000,000). A$13,553,000 (US$13,046,000) has been drawn down at 30 June 2008 (2007: ANil, USNil). The facility is in place until 30 June 2010. The facility can be drawn down in Australian dollars or United States dollars. A commitment fee of 0.45% (2007: 0.45%) per annum is payable on the unused portion of the revolving cash advance facility.

The interest rate applicable to the cash advance facility comprises BBSY (2007: LIBOR) plus a minimum margin of 0.95% per annum. The effective interest rate was 8.61% per annum at 30 June 2008 (2007: 6.31%).

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24. LOANS AND BORROWINGS (cont)

Bank Loans (cont)

2) Bank guarantee facility

The bank guarantee facility is denominated in Australian dollars as an A$75,000,000 (2007: A$60,000,000) limit amortising to A$Nil (2007: A$Nil) at maturity 30 June 2010. The facility can be drawn in Australian dollars, incorporating a sub-limit of the equivalent of A$4,000,000 (2007: A$4,000,000) which can be drawn in United States dollars. Bank guarantee fees are payable at 0.55% per annum and a fee of 0.22% per annum applies to the unused portion of the bank guarantee facility.

Security

The Corporate Facility is secured by a guarantee provided by Macarthur Coal Limited and charges over the Group'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 charges over the assets and undertakings of the controlled entity, Macarthur Coal Management Pty Ltd and the Company's shares in Coppabella Coal Pty Ltd and Macarthur Coal Management Pty Ltd and intercompany loans to the controlled entities.

Assets pledged under security arrangements

The carrying amounts of the pledged non-current assets are as follows:

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Mining property and development	96,103	101,498	-	-
Land	3,730	3,730	-	-
Buildings and infrastructure	44,330	45,793	-	-
Plant and equipment	23,913	2,469	-	-
Leased assets (refer below)	18,431	7,690	-	-
Inventories	265	4,678	-	-
Capital works in progress	1,974	15,396	-	-
Receivables	1,763	2,963	-	-
Overburden in advance	31,646	2,765	-	-
Shares in controlled entities	-	-	56,385	56,385
Amounts receivable from controlled entities	-	-	19	506
	222,155	**186,982**	**56,404**	**56,891**

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24. LOANS AND BORROWINGS (CONT)

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	Consolidated					
	Minimum lease payments 2008 $'000	Interest 2008 $'000	Principal 2008 $'000	Minimum lease payments 2007 $'000	Interest 2007 $'000	Principal 2007 $'000
Less than one year	4,672	1,494	3,178	1,968	517	1,451
Between one and five years	17,801	3,068	14,733	6,822	939	5,883
More than five years	345	31	314	476	58	418
	22,818	**4,593**	**18,225**	**9,266**	**1,514**	**7,752**

The Company has no finance lease liabilities.

Certain leases provide for additional payments that are contingent upon usage limits being exceeded. Contingent rents recognised in the income statement under finance leases amounted to $Nil (2007: $Nil).

Security

The lease liabilities are secured by a fixed and floating charge provided by Macarthur Coal (C&M Equipment) Pty Ltd (MCCME), an associated entity. In addition, the Company provides guarantees to the extent of 73.3% of MCCME's obligations under finance and operating leasing arrangements.

25. EMPLOYEE BENEFITS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current liabilities				
Liability for annual leave	2,052	1,500	548	427
Liability for sick leave	545	191	-	-
Liability for long-service leave	117	12	117	12
	2,714	**1,703**	**665**	**439**
Non-current liabilities				
Liability for long-service leave	**144**	**117**	**77**	**117**

Defined contribution superannuation funds

The Group makes contributions to several defined contribution superannuation funds. The amount recognised as an expense was $387,000 for the financial year ended 30 June 2008 (2007: $385,000).

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25. EMPLOYEE BENEFITS (CONT)

Long service leave industry fund

The Group makes contributions to the Coal Mining Industry Leave Fund. A total of $427,000 was paid to the fund for the financial year ended 30 June 2008 (2007: $149,000).

Share-based payments

Executive Option Plan

A Long Term Incentive (LTI) programme exists, which is an equity based incentive designed to provide nominated executives with the incentive to deliver long-term growth in shareholder value.

For further details of the LTI plan, refer to the Remuneration Report contained within the Directors' Report.

No amounts have been recognised during the year ended 30 June 2008 as any performance rights for the Managing Director and nominated senior executives were formalised subsequent to 30 June 2008.

Employee Share Loan Plan

The Company has an Employee Share Loan Plan (ESLP) which is used to provide an opportunity for eligible persons of the Group and approved contractors to acquire shares of the Company. On 15 December 2005, 122,935 shares were acquired for 86 eligible employees at a purchase price of $5.43 per share with a value limit of between $6,000 and $20,000 per employee. There were no shares acquired during the year.

All shares held under the ESLP rank equally with all other shares for time being on issue.

The Company provides interest free loans to all eligible persons to enable them to acquire shares under ESLP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under ESLP will be used to offset any loans outstanding on the shares. Employees and contractors have also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

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 the shares as security over the loan until the loan is repaid.

The market price of shares held under the ESLP as at 30 June 2008 was $16.87 (2007: $6.77).

There were no other shares eligible for acquisition under the ESLP at 30 June 2008 (2007: Nil).

The number and weighted average acquisition price of shares is as follows:

	Weighted Average exercise price 2008	Number of shares 2008	Weighted Average exercise price 2007	Number of shares 2007
Outstanding at the beginning of the period		89,442		106,005
Granted during the period	-	-	-	-
Sold and transferred during the period	$12.67	(39,753)	$4.21	(16,563)
Outstanding at the end of the period		**49,689**		**89,442**

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26. PROVISIONS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Rehabilitation and dismantling	1,966	1,030	-	-
	1,966	**1,030**	-	-
Non-current				
Rehabilitation and dismantling	23,605	19,669	-	-
Other	171	160	97	90
	23,776	**19,829**	**97**	**90**

During the financial year ended 30 June 2008, $909,000 was recognised as an expense in the income statement in respect of rehabilitation incurred (2007: $169,000).

Rehabilitation and dismantling

In accordance with State Government legislative requirements, a provision has been recognised for mine rehabilitation works throughout the life of the mines in relation to the Group's coal mining operations. A provision for dismantling of infrastructure assets on cessation of operations at the mines has also been recognised in relation to the Group's coal mining operations. The basis for accounting is set out in Note 3(n).

Rehabilitation and dismantling				
Balance at 1 July	20,699	17,886	-	-
Provisions made during the year	4,396	1,791	-	-
Provisions used during the year	(909)	(169)	-	-
Unwind of discount	1,385	1,191	-	-
Balance at 30 June	**25,571**	**20,699**	-	-
Onerous contracts				
Balance at 1 July	-	1,881	-	-
Provisions used during the year	-	(1,881)	-	-
Balance at 30 June	-	-	-	-
Other				
Balance at 1 July	160	177	90	98
Unwind of discount	11	(17)	7	(8)
Balance at 30 June	**171**	**160**	**97**	**90**

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27. OTHER FINANCIAL LIABILITIES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Amounts payable for future user charges (refer Note 32(e))	1,903	1,795	-	-
Foreign currency derivative contracts	130	-	-	-
Other derivative liabilities	570	2,000	-	2,000
	2,603	**3,795**	-	**2,000**
Non-current				
Amounts payable for future user charges (refer Note 32(e))	7,006	8,908	-	-
Other derivative liabilities	26,120	-	-	-
	33,126	**8,908**	-	-

Other derivative contracts

In Note 26 to the financial statements for the year ended 30 June 2007, reference was made to an option which was granted on 22 June 2007 to a non-related third party to buy all the shares of two wholly owned subsidiaries, Monto Coal Pty Ltd and Monto Coal 2 Pty Ltd. The option period was originally due to expire on 15 October 2007 but was extended to 15 December 2007.

On 13 December 2007, this option deed was terminated and agreement reached to repay the $2,000,000 option fee on 7 January 2008.

In the 2008 financial year, resulting from the acquisition of Custom Mining Limited Group, derivative financial instruments exist relating to contractual obligations and an option for the sale of shares in a jointly controlled entity, Middlemount Coal Pty Ltd, to a non-related third party in line with pre-determined triggering events in the future. These triggering events relate to milestones in the development of the Middlemount Coal project.

There is no credit risk, liquidity risk or market risk associated with these derivatives.

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28. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share capital $'000	Hedging reserve $'000	Fair value reserve $'000	Retained earnings $'000	Total equity $'000
Consolidated					
Balance at 1 July 2006	246,343	2,820	-	142,010	391,173
Total recognised income and expense	-	10,430	1,003	66,544	77,977
Dividends to shareholders	-	-	-	(54,340)	(54,340)
Balance at 30 June 2007	246,343	13,250	1,003	154,214	414,810
Balance at 1 July 2007	246,343	13,250	1,003	154,214	414,810
Total recognised income and expense	-	4,691	(1,003)	72,684	76,372
Equity settled transactions	218,775	-	-	-	218,775
Dividends to shareholders	-	-	-	(19,481)	(19,481)
Balance at 30 June 2008	**465,118**	**17,941**	-	**207,417**	**690,476**
Company					
Balance at 1 July 2006	246,343	-	-	4,305	250,648
Total recognised income and expense	-	-	1,003	63,684	64,687
Dividends to shareholders	-	-	-	(54,340)	(54,340)
Balance at 30 June 2007	246,343	-	1,003	13,649	260,995
Balance at 1 July 2007	246,343	-	1,003	13,649	260,995
Total recognised income and expense	-	-	(1,003)	12,629	11,626
Equity settled transactions	218,775	-	-	-	218,775
Dividends to shareholders	-	-	-	(19,481)	(19,481)
Balance at 30 June 2008	**465,118**	-	-	**6,797**	**471,915**

	Company Ordinary shares	
	2008	2007
Share capital		
On issue at 1 July	187,380,346	187,380,346
Shares issued on equity settled transaction (refer Note 36)	24,776,393	-
On issue at 30 June – fully paid	**212,156,739**	**187,380,346**

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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

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28. CAPITAL AND RESERVES (cont)

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised.

Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount $	Franked/ unfranked	Date of payment
2008				
Interim 2008 ordinary	3.0	6,364,702	Franked	31 March 2008
Final 2007 ordinary	7.0	13,116,624	Franked	28 September 2007
Total amount	**10.0**	**19,481,326**		
2007				
Interim 2007 ordinary	11.0	20,611,838	Franked	30 March 2007
Final 2006 ordinary	18.0	33,728,462	Franked	9 October 2006
Total amount	**29.0**	**54,340,300**		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividends were proposed by the directors. The declaration and subsequent payment of dividends has no income tax consequences.

Final ordinary	14.0	29,701,943	Franked	30 September 2008

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports.

	Company	
	2008 $'000	2007 $'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	**37,065**	**42,303**

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28. CAPITAL AND RESERVES (cont)

Dividends (cont)

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

(a) franking credits/debits that will arise from the payment/receipt of the current tax liabilities/assets;
(b) franking debits that will arise from the payment of dividends recognised as a liability at year-end;
(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at year-end; and
(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.

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $12,729,000 (2007: $5,621,000).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $37,065,000 (2007: $42,303,000) franking credits.

29. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

Credit risk

Exposure to credit risk

The carrying amount of the Group's and Company's financial assets represents the maximum credit exposure. The Group's and Company's maximum exposure to credit risk at the reporting date was:

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Carrying amount					
Available-for-sale financial assets	18	-	33,115	-	33,115
Cash and cash equivalents	15	22,478	96,565	627	21,964
Cash and deposits not at call	18	16,928	6,020	-	-
Trade and other receivables	16	122,237	39,213	225,080	247,337
Forward exchange contracts used for hedging – assets	18	25,761	18,560	-	-
		187,404	**193,473**	**225,707**	**302,416**

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29. FINANCIAL INSTRUMENTS (cont)

Credit risk (cont)

Exposure to credit risk (cont)

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Consolidated 2008 $'000	Consolidated 2007 $'000
Carrying amount		
Asia	4,421	4,777
Europe	5,303	732
Americas	3,897	-
Other	5,683	-
	19,304	**5,509**

The geographical mix and amounts outstanding at year end for trade receivables is influenced by the timing of shipments to customers during the month of June. This arises due to the fact that the majority of sales are trade financed and therefore settled within a short timeframe following sales recognition. To give a better understanding of the average exposure over the course of a year, the 2008 sales distribution by geographic regions is Asia 38%, Europe 39%, Americas 14% and Other 9% (2007: Asia 43%, Europe 34%, Americas 21% and Other 2%).

The Company's exposure to credit risk is minimal as receivable amounts primarily relate to intercompany receivables (including intercompany tax related receivables).

Impairment losses

None of the Group's receivables are past due (2007: $Nil). The ageing of the Group's trade receivables at the reporting date was:

	Gross 2008 $'000	Impairment 2008 $'000	Gross 2007 $'000	Impairment 2007 $'000
Consolidated				
Not past due	19,304	-	5,509	-
	19,304	-	**5,509**	-

Based on the global standing, size and credit ratings of our customers, the Group believes that no impairment allowance is necessary in respect of trade receivables.

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29. FINANCIAL INSTRUMENTS (cont)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount $'000	Contractual cashflows $'000	6 months or less $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
2008							
Consolidated							
Non-derivative financial liabilities							
Secured bank loans	21,842	(25,292)	(940)	(2,996)	(21,356)	-	-
Finance lease liabilities	18,225	(22,818)	(2,336)	(2,336)	(4,672)	(13,129)	(345)
Deferred liability for acquisition of mining interest	8,448	(11,437)	(1,039)	(1,039)	(2,080)	(6,240)	(1,039)
Amounts payable for future user charges	8,909	(10,126)	(1,191)	(1,191)	(2,383)	(5,361)	-
Trade and other payables	138,789	(138,789)	(98,789)	-	(40,000)	-	-
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
Outflow	625,717	(625,717)	(392,065)	(233,652)	-	-	-
Inflow	(651,348)	651,348	411,306	240,042	-	-	-
	170,582	**(182,831)**	**(85,054)**	**(1,172)**	**(70,491)**	**(24,730)**	**(1,384)**
2007							
Consolidated							
Non-derivative financial liabilities							
Finance lease liabilities	7,752	(9,266)	(984)	(984)	(1,969)	(4,853)	(476)
Deferred liability for acquisition of mining interest	9,577	(13,518)	(1,039)	(1,039)	(2,080)	(6,240)	(3,120)
Amounts payable for future user charges	10,703	(12,509)	(1,191)	(1,191)	(2,383)	(7,148)	(596)
Trade and other payables	81,416	(81,416)	(81,416)	-	-	-	-
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
Outflow	228,933	(228,933)	(148,551)	(80,382)	-	-	-
Inflow	(247,493)	247,493	160,900	86,593	-	-	-
	90,888	**(98,149)**	**(72,281)**	**2,997**	**(6,432)**	**(18,241)**	**(4,192)**

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29. FINANCIAL INSTRUMENTS (cont)

Liquidity risk (cont)

	Carrying amount $'000	Contractual cashflows $'000	6 months or less $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000
2008							
Company							
Amounts payable to controlled entities	117,808	(168,401)	-	-	-	-	(168,401)
Trade and other payables	41,800	(41,800)	(1,800)	-	(40,000)	-	-
	159,608	**(210,201)**	**(1,800)**	-	**(40,000)**	-	**(168,401)**
2007							
Company							
Amounts payable to controlled entities	104,907	(150,355)	-	-	-	-	(150,355)
Trade and other payables	2,055	(2,055)	(2,055)	-	-	-	-
	106,962	**(152,410)**	**(2,055)**	-	-	-	**(150,355)**

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	2008 USD $'000	2007 USD $'000
Trade receivables	18,582	4,676
Trade and other payables	(14,580)	(11,323)
Gross balance sheet exposure	4,002	(6,647)
Estimated forecast sales	928,499	294,999
Estimated forecast purchases	(85,814)	(41,212)
Gross exposure	842,685	253,787
Forward exchange contracts	(586,516)	(192,595)
Net exposure	**256,169**	**61,192**

The Company has no direct exposure to foreign currencies.

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29. FINANCIAL INSTRUMENTS (cont)

Currency risk (cont)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
USD	0.8968	0.7857	0.9626	0.8487

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Consolidated		Company	
	Equity $'000	Profit or loss $'000	Equity $'000	Profit or loss $'000
30 June 2008				
USD	(60,930)	(2,690)	-	-
30 June 2007				
USD	(22,633)	(1,216)	-	-

A 10% weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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29. FINANCIAL INSTRUMENTS (cont)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

	Consolidated Carrying amount		Company Carrying amount	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fixed rate instruments				
Financial liabilities	(27,134)	(18,455)	-	-
	(27,134)	**(18,455)**	-	-
Variable rate instruments				
Financial assets	39,406	102,585	627	21,964
Financial liabilities	(30,290)	(9,577)	-	-
	9,116	**93,008**	**627**	**21,964**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	Profit or loss		Equity	
	100bp increase $'000	100bp decrease $'000	100bp increase $'000	100bp decrease $'000
30 June 2008				
Variable rate instruments	567	(567)	-	-
Cash flow sensitivity (net)	567	(567)	-	-
30 June 2007				
Variable rate instruments	1,531	(1,531)	-	-
Cash flow sensitivity (net)	1,531	(1,531)	-	-

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29. FINANCIAL INSTRUMENTS (cont)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2008 $'000	Fair value 2008 $'000	Carrying amount 2007 $'000	Fair value 2007 $'000
Consolidated				
Cash and cash equivalents	22,478	22,478	96,565	96,565
Trade and other receivables	122,237	122,237	39,213	39,213
Cash and deposits – not at call	16,928	16,928	6,020	6,020
Investments in equity securities	-	-	33,115	33,115
Foreign currency derivative contracts:				
Assets	25,761	25,761	18,560	18,560
Liabilities	(130)	(130)	-	-
Trade and other payables	(138,789)	(138,789)	(81,416)	(81,416)
Deferred liability for acquisition of mining interest	(8,448)	(8,448)	(9,577)	(9,577)
Finance lease liabilities	(18,225)	(18,225)	(7,752)	(7,752)
Secured bank loans	(21,842)	(21,842)	-	-
Other derivative liabilities*	(26,690)	(26,690)	(2,000)	(2,000)
Employee benefits	(2,858)	(2,858)	(1,820)	(1,820)
Other financial liabilities	(8,909)	(8,909)	(10,703)	(10,703)
Unrecognised (losses)/gains		-		-

*Refer Note 27 for details.

Company				
Cash and cash equivalents	627	627	21,964	21,964
Trade and other receivables	225,080	225,080	247,337	247,337
Investments in equity securities	-	-	33,115	33,115
Trade and other payables	(159,608)	(159,608)	(106,962)	(106,962)
Employee benefits	(742)	(742)	(556)	(556)
Other financial liabilities	-	-	(2,000)	(2,000)
Unrecognised (losses)/gains		-		-

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29. FINANCIAL INSTRUMENTS (cont)

Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in Note 4.

Interest rates used for determining fair value

The entity uses the government yield curve as of 30 June 2008 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2008 %	2007 %
Derivatives	6.3–7.8	5.5–7.0
Deferred liability for acquisition of mining interest	10.9	10.7
Receivables	7.0–7.5	5.5–6.5

30. INTERESTS IN JOINT VENTURE OPERATIONS

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

	Joint venture % interest held		
	2008	2007	Principal activity
Coppabella and Moorvale Joint Venture	73.3	73.3	Coal production
Monto Coal Joint Venture	41[1]	51	Exploration and evaluation
Olive Downs (South) Joint Venture (refer below)	90	90	Exploration and evaluation
Moorvale West Joint Venture	90	90	Exploration and evaluation
West/North Burton Joint Venture	65	65	Exploration and evaluation
West Rolleston Joint Venture	90	90	Exploration and evaluation
West Walker Joint Venture	85	85	Exploration and evaluation
Bowen Basin Coal Joint Venture	85	85	Exploration and evaluation
Capricorn Joint Venture	85	85	Exploration and evaluation

As a result of the disposal of 19.61% of the Group's interest in Monto Coal 2 Pty Ltd on 1 April 2008, and consequential deconsolidation of Monto Coal 2 Pty Ltd from the Group, the Group holds its 41% interest in the Monto Coal Joint Venture indirectly via its interest in Monto Coal 2 Pty Ltd, a jointly controlled entity. Refer Note 31 for details relating to the Group's investment in the jointly controlled entity. The information presented in the remainder of this note excludes financial information relating to the Monto Coal Joint Venture interests.

For the year ended 30 June 2008, the contribution of the Coppabella and Moorvale Joint Venture to the operating profit before tax of the Group was $95,248,000 (2007: $93,909,000). The value of the Group's 73.3% share of coal sold (pre hedging) during the year by Coppabella and Moorvale Joint Venture was $370,175,000 (2007: $346,138,000).

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

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30. INTERESTS IN JOINT VENTURE OPERATIONS (cont)

On 16 May 2007, the Group sold 16.7% of its 90% interest in the Olive Downs North project (previously part of Olive Downs Joint Venture) which comprises the tenement region to the North of the Isaac River. The Group's interest in the Olive Downs North project is now reported within Coppabella and Moorvale Joint Venture at 73.3%. The Group's interest in the tenement area to the south of the Isaac River remains at 90% and is now identified as Olive Downs (South) Joint Venture.

Included in the assets and liabilities of the Group are the following items which represent the Group's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 3(a).

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current assets				
Trade and other receivables	16,593	15,647	-	-
Inventories	27,626	28,627	-	-
Other financial assets	16,903	6,020	-	-
Overburden in advance	143,501	105,552	-	-
Assets classified as held for sale	-	33,537	-	-
Total current assets	**204,623**	**189,383**	-	-
Non-current assets				
Trade and other receivables	1,878	3,080	-	-
Inventories	265	4,678	-	-
Property, plant and equipment	188,481	176,576	-	-
Exploration and evaluation assets	76,600	66,303	-	-
Overburden in advance	31,646	2,765	-	-
Total non-current assets	**298,870**	**253,402**	-	-
Total assets	**503,493**	**442,785**	-	-
Current liabilities				
Trade and other payables	97,677	75,603	-	-
Loans and borrowings	3,178	1,451	-	-
Provisions	1,966	1,030	-	-
Other financial liabilities	1,903	1,795	-	-
Total current liabilities	**104,724**	**79,879**	-	-
Non-current liabilities				
Loans and borrowings	15,047	6,301	-	-
Provisions	23,605	19,669	-	-
Other financial liabilities	7,006	8,908	-	-
Total non-current liabilities	**45,658**	**34,878**	-	-
Total liabilities	**150,382**	**114,757**	-	-

Refer to Notes 32 and 33 for details of commitments and contingent liabilities.

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30. INTERESTS IN JOINT VENTURE OPERATIONS (cont)

Included in the income statement of the Group are the following items which represent the Group's interest in the revenue and expenses relating to the joint ventures, recorded in accordance with the accounting policies described in Note 3(a).

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Revenue (pre hedging)	370,174	354,102	-	-
Expenses	(311,931)	(285,041)	-	-
Net Profit	**58,243**	**69,061**	-	-

31. EQUITY ACCOUNTED INVESTEES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Investments in jointly controlled entities	338,582	-	31,935	-

The Group's and Company's share of the losses in its equity accounted investees for the year was $3,666,000 (2007: $Nil) and $221,000 (2007: $Nil), respectively. Details of equity accounted investees are as follows:

			Interest held	
	Principal activities	Reporting date	2008 %	2007 %
Middlemount Coal Pty Ltd and its controlled entity	Operator of Middlemount Coal project	30 June	74.66	-
Monto Coal 2 Pty Ltd	Participant in the Monto Coal Joint Venture	30 June	80.39	-

During the year the Group acquired a 74.66% investment in Middlemount Coal Pty Ltd. This investee was established to develop the Middlemount Coal project. Under the terms of the shareholder agreement, the Group does not have control over the entity and it is accounted for as a jointly controlled entity.

During the year the Group and Company disposed of a 19.61% interest in Monto Coal 2 Pty Ltd. This investee was previously accounted for as a wholly owned subsidiary. Under the terms of the shareholder agreement, the Group and the Company no longer have control over the entity and it has been deconsolidated and accounted for as a jointly controlled entity from 1 April 2008.

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31. EQUITY ACCOUNTED INVESTEES (cont)

Summary financial information for Middlemount Coal Pty Ltd and its controlled entity (jointly controlled entity of the Group) and Monto Coal 2 Pty Ltd (jointly controlled entity of the Group and Company) for the period of the year that they were equity accounted, not adjusted for the percentage ownership held by the Group and Company is:

	Middlemount Coal Pty Ltd	Monto Coal 2 Pty Ltd	Total
	2008 $'000	2008 $'000	2008 $'000
Percentage held at year end	74.66%	80.39%	
Current assets	16,607	591	17,198
Non-current assets	101,653	73,882	175,535
Total assets	**118,260**	**74,473**	**192,733**
Current liabilities	61,423	980	62,403
Non-current liabilities	-	7,568	7,568
Total liabilities	**61,423**	**8,548**	**69,971**
Revenue	255	1	256
Expenses	(4,869)	(276)	(5,145)
Loss	**(4,614)**	**(275)**	**(4,889)**

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Commitments				
Share of capital expenditure commitments of jointly controlled entities payable:				
Not later than one year	24,862	-	-	-
	24,862	-	-	-
Share of mining lease commitments of jointly controlled entities payable:				
Not later than one year	38	-	12	-
Later than one year but not later than five years	85	-	38	-
Later than five years	205	-	205	-
	328	-	**255**	-
Share of operating commitments of jointly controlled entities payable:				
Not later than one year	4,089	-	-	-
	4,089	-	-	-

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31. EQUITY ACCOUNTED INVESTEES (cont)

Guarantees

Middlemount Coal Pty Ltd, has provided guarantees in relation to contracts for mining operations and the construction of a coal handling and preparation plant, and certain payments in relation to the deferred consideration for the purchase of a mineral development licence and shares in its controlled entity.

Contingencies

Middlemount Coal Pty Ltd has disputed charges made against it by a contractor in relation to flood damage to equipment and equipment standing charges while damaged. The amount disputed is $1,016,000 (not adjusted for the percentage ownership held by the Group). The view of the Directors of Middlemount Coal Pty Ltd is that the company is not liable for these charges and accordingly has not recognised a liability at 30 June 2008.

32. CAPITAL AND OTHER COMMITMENTS

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(a) Capital expenditure commitments – joint ventures				
Capital expenditure contracted but not provided for in the financial statements and payable:				
Not later than one year	74,174	36,597	-	-
	74,174	**36,597**	-	-
(b) Operating lease commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Not later than one year	819	552	623	440
Later than one year but not later than five years	2,305	1,719	1,929	1,518
Later than five years	-	45	-	45
	3,124	**2,316**	**2,552**	**2,003**

The Group leases a number of office spaces under operating leases. The leases typically run for a period of 2 to 5 years. Lease payments are increased every year to reflect market rentals.

During the financial year ended 30 June 2008, $502,000 was recognised as an expense in the income statement in respect of operating leases (2007: $571,000).

(c) Mining leases – joint ventures				
Future mining lease rentals not provided for in the financial statements and payable:				
Not later than one year	375	391	-	-
Later than one year but not later than five years	1,231	1,236	-	-
Later than five years	2,646	2,807	-	-
	4,252	**4,434**	-	-

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32. CAPITAL AND OTHER COMMITMENTS (cont)

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(d) Exploration and evaluation expenditure				
Exploration obligations				
In order to maintain current rights of tenure to exploration tenements, the Group 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 and/or renewal of exploration permits is made and at other times. These obligations are not provided for in the financial statements and are payable:				
Not later than one year	1,427	1,075	-	-
Later than one year but not later than five years	2,507	1,457	-	-
	3,934	**2,532**	**-**	**-**
(e) Operating commitments – joint ventures				
Commitments under the electricity, water, rail, port, coal washing plant, train loading facility and accommodation agreements for joint ventures not provided for in the financial statements and payable:				
Not later than one year	98,206	65,523	4,057	7,585
Later than one year but not later than five years	194,169	205,768	29,943	60,181
Later than five years	253,769	291,329	102,475	160,768
	546,144	**562,620**	**136,475**	**228,534**

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 owners 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.

Refer Note 24 for commitments relating to finance leases of the Group.

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 (Group share of $596,000 per quarter; 2007: $596,000 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 2008 (refer Note 27).

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32. CAPITAL AND OTHER COMMITMENTS (cont)

(f) Other commitments

Joint Ventures

Deeds of cross charge

(i) 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 Macarthur Coal (C&M Management) Pty Ltd as the manager of the Coppabella and Moorvale Joint Venture.

(ii) The payment of future cash calls by Monto Coal 2 Pty Ltd, an equity accounted investee, 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.

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

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

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

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

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

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

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

(x) As security for performance of all obligations, including payment obligations by Custom Mining (Dingo) Pty Ltd, a controlled entity, as required under the Dingo West Joint Venture Agreement, a deed of cross charge exists as security over Custom Mining (Dingo) Pty Ltd's future interest in the Dingo West Joint Venture in favour of the other joint venturers.

Jointly controlled entities and Associates

Refer Notes 31 and 35.

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33. CONTINGENCIES (cont)

Acquisition

As part of the Custom Mining Limited (CML) acquisition, the Group agreed to an amount of deferred consideration, being the issue of up to $10,000,000 of Macarthur Coal Limited shares, capped at $9.00 per share, on satisfaction of certain project milestones. As at 30 June 2008, the milestones necessary for the issue of the maximum amount of shares had not been met. Accordingly, the maximum issue of shares has been reduced to $5,000,000, however, based on information currently available, it is considered unlikely that all project milestones will be met under the required conditions.[1]

[1] These contingent liabilities are considered remote.

Litigation

Monto

A statement of claim was delivered to Monto Coal Pty Ltd, a wholly owned subsidiary of the Company, and Monto Coal 2 Pty Ltd, an equity accounted investee, on 1 October 2007 from the minority interest holders in the Monto Coal Joint Venture being Sanrus Pty Ltd, Edge Developments Pty Ltd and H & J Enterprises (Qld) Pty Ltd. The claim seeks damages stated to be no less than $68,970,000 plus interest and costs.

Monto Coal Pty Ltd is the manager of the Monto Coal Project pursuant to a Management Agreement. Monto Coal 2 Pty Ltd holds a 51% interest in the Monto Coal Joint Venture.

The Directors of the Group (and the Manager) dispute the above claims and will vigorously defend their position.

In the directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the Group.

Downer EDI

Subsequent to 30 June 2007, Macarthur Coal (C&M Management) Pty Ltd (MCCM), as manager and agent for the Coppabella and Moorvale Joint Venture participants, reached agreement with Downer EDI Mining Pty Ltd on settlement of the long-standing dispute between the parties over a mining contract at Coppabella Mine (referred to in Note 31 of the Group's financial statements for the year ended 30 June 2007). The entire settlement amount has been fully provided for in the financial statements for the year ended 30 June 2008. The specific terms of the settlement remain confidential.

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33. CONTINGENCIES

The directors are of the opinion that provisions are not required in respect of these matters, 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 2008.[1]

[1] These contingent liabilities are considered remote.

Guarantees

The Company provides guarantees in relation to the operations of the Group for payments in relation to leased equipment (refer Note 24), royalties, accommodation facilities and certain joint venture undertakings.

The Company provides letters of support to Middlemount Coal Pty Ltd, a jointly controlled entity, and to the associated entities listed in Note 35, to provide that each of those entities are in a position to meet debts as and when they become due and payable.

The Company has guaranteed the commitments of Monto Coal 2 Pty Ltd, a jointly controlled entity, in relation to royalty arrangements.

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling $58,309,000 (2007: $59,835,000) in respect of rehabilitation works, electricity, water, transport infrastructure corridor facilities and customers.

In the prior year, guarantees totalling $6,034,000 were provided in respect of rehabilitation works and water which were secured by bank term deposits of the same amount (refer Note 15).[1]

In a prior year, the Group, as a participant of the Coppabella and Moorvale Joint Venture, had entered into a Residual Value Guarantee (RVG) with a bank regarding the lease residual value of the dragline used by a contractor at Coppabella Mine. The lease term expired during the financial year on 30 June 2008 and the guarantee was released in full.

[1] These contingent liabilities are considered remote.

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 Group is required to lodge securities with the Department of Natural Resources, Mines and Water to ensure compliance with relevant legislation. The total amount of the guarantees lodged with the Department of Natural Resources, Mines and Water as at 30 June 2008 is $25,984,000 (2007: $14,615,000) (included in the amount of guarantees referred to above).[1]

[1] These contingent liabilities are considered remote.

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34. GROUP ENTITIES

	Ownership interest 2008 %	Ownership interest 2007 %
Parent entity		
Macarthur Coal Limited		
Subsidiaries		
Coppabella Coal Pty Ltd	100	100
Macarthur Coal Management Pty Ltd	100	100
Macarthur Coal Mine Management Pty Ltd	100	100
Macarthur Rush Pty Ltd	100	-
Moorvale Coal Pty Ltd	100	100
Macarthur Coal (Equipment) Pty Ltd	100	100
Monto Coal Pty Ltd	100	100
Monto Coal 2 Pty Ltd	-	100
Macarthur Exploration Pty Ltd	100	100
Olive Downs Coal Pty Ltd	100	100
Queensland Coke & Energy Pty Ltd	100	100
Capricorn Coal Pty Ltd	100	100
West Burton Coal Pty Ltd	100	100
West Rolleston Coal Pty Ltd	100	100
West Walker Coal Pty Ltd	100	100
Moorvale West Coal Pty Ltd	100	100
BB Interests Pty Ltd	100	100
Custom Mining Limited	100	-
Custom Mining Management Pty Ltd	100	-
Custom Management Services Pty Ltd	100	-
Custom Mining (Monto) Pty Ltd	100	-
Custom Mining Dingo Pty Ltd	100	-

All subsidiaries were incorporated and carry on business in Australia.

In the financial statements of the Company, investments in controlled entities are measured at cost and included with other financial assets. Refer to Note 18.

During the year the Company disposed of a 19.61% interest in Monto Coal 2 Pty Ltd (refer to Note 36). Under the terms of the shareholder agreement, the Group and Company does not have control over this entity and, accordingly, it has been deconsolidated and accounted for as a jointly controlled entity (refer to Note 31).

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35. INVESTMENTS IN ASSOCIATED ENTITIES

	Principal activities	Reporting date	Interest held 2008 %	Interest held 2007 %
Macarthur Coal (C&M Management) Pty Ltd [1]	Manager of the Coppabella and Moorvale Joint Venture	30 June	73.3	73.3
Bistrotel Pty Ltd [1]	Property Owner	30 June	73.3	73.3
Macarthur Coal (C&M Equipment) Pty Ltd [1]	Equipment Finance	30 June	73.3	73.3

[1] Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, the Group 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 are not material to the Group and accordingly have not been equity accounted.

	Consolidated 2008 $'000	Consolidated 2007 $'000
Commitments		
Share of associates' operating commitments payable:		
Not later than one year	13,677	6,541
Later than one year but not later than five years	42,134	22,862
	55,811	**29,403**

Operating commitments include lease commitments relating to production equipment leased by Macarthur Coal (C&M Equipment) Pty Ltd, an associated entity. These costs are reimbursed by the participants of the Coppabella and Moorvale Joint Venture, including Coppabella Coal Pty Ltd, a controlled entity of the Company. The amounts disclosed above represent the Group's share of those operating lease commitments. These amounts have been included in Note 32(e).

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36. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS

Acquisitions

The following controlled entities were acquired during the year:

	Date acquired	Group's interest %	Consideration $'000	Contribution to consolidated net profit/(loss) $'000
2008				
Macarthur Rush Pty Ltd [1]	7 December 2007	100	-	-
Custom Mining Limited	15 January 2008	100	284,479	(3,688)
Custom Mining Management Pty Ltd	15 January 2008	100	-	-
Custom Management Services Pty Ltd	15 January 2008	100	-	-
Custom Mining (Monto) Pty Ltd	15 January 2008	100	-	(1)
Custom Mining Dingo Pty Ltd	15 January 2008	100	-	-
2007				
Macarthur Coal (C&M Equipment) Pty Ltd [1]	28 August 2006	100	-	-

[1] The companies were acquired as a shelf company for nominal cost. The shelf companies had no assets nor had they operated at the date of acquisition.

On 15 January 2008, the Group acquired all of the shares in Custom Mining Limited (CML) for $284,479,000. Consideration for the acquisition was the issue of 24,776,393 Macarthur Coal shares to the value of $218,776,000 based on the bid price at the time of transfer of the shares on the date of acquisition and $65,000,000 in cash. Costs incurred directly attributable to the acquisition were $703,000. In addition to the cash and shares at acquisition date, consideration for the acquisition includes a maximum additional $10,000,000 of Macarthur Coal shares, to be issued on 31 March 2009 capped at $9.00 per share on satisfaction of certain project milestones (refer Note 33). The CML Group, comprising the entities listed in the table above operates the Middlemount Coal project and holds a number of exploration interests.

In the period from date of acquisition to 30 June 2008, the CML Group contributed a loss of $3,689,000.

If the acquisition had occurred on 1 July 2007, management estimates that consolidated revenue would have been $400,231,000 and consolidated profit for the period would have been $70,438,000. In determining these amounts management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2007.

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36. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (cont)

Acquisitions (cont)

Effect of Acquisition

The acquisition had the following effect on the Group's assets and liabilities for the period:

	Pre-acquisition Carrying Amount $'000	Fair Value Adjustment $'000	Recognised values on acquisition $'000
Cash and cash equivalents	10,187	-	10,187
Trade and other receivables	1,673	-	1,673
Property, plant and equipment	417	-	417
Other assets	286	-	286
Trade and other payables	(4,204)	-	(4,204)
Loans and borrowings	(8,500)	-	(8,500)
Net identifiable assets and liabilities	(141)	-	(141)
Investment in equity accounted investee			289,179
Goodwill on acquisition			26,700
Financial derivative liability			(26,900)
Deferred tax liability			(4,500)
Consideration paid, satisfied in shares			218,776
Consideration paid, satisfied in cash			65,000
Costs of acquisition			703
Cash acquired			(10,187)
Net cash outflow			**55,516**

Pre-acquisition carrying amounts were determined based on applicable AASB's immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values (see Note 4 for methods used in determining fair values).

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36. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (cont)

Acquisitions (cont)

Effect of Acquisition (cont)

Goodwill recognised on acquisition of the Custom Mining Limited Group of $26,700,000 has been allocated to the Group's interest in the Middlemount Coal project, through its investment in the equity accounted investee, Middlemount Coal Pty Ltd. For the purposes of impairment testing, goodwill is allocated to the Group's individual projects, which represents the lowest level at which goodwill is monitored for internal management purposes.

No impairment of goodwill is necessary based on the recoverable amount of the Middlemount Coal project exceeding the carrying value. The recoverable amount has been based on its value in use as determined internally by management, with the assistance of an independent expert. The value in use has been based on the discounted cash-flows to be generated from the project.

The following key assumptions have been used:

- Cashflows have been based on the long-term project plan for the Middlemount Coal project and take into consideration long-term global coal pricing, anticipated operating and distribution infrastructure and costs over the life of the project which is based on available coal reserves.
- Revenues are based on an average of analyst's forecasts of long-term coal pricing for Hard Coking Coal and Pulverised Coal Injection at US$102/tonne and US$78/tonne respectively.
- Cash-flows have been calculated using a real discount rate of 8.5%, which is equivalent to the Group's nominal weighted average cost of capital of 11.7% assuming, a long-term inflation rate of 3%, a long-term debt to equity ratio of 54% and a long-term market interest rate of 9.3%.

The values assigned to the key assumptions represent management's assessment of future industry variables and have been based on both internal and external sources of information.

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36. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS (cont)

Disposals

On 1 April 2008, the Group completed the disposal of a 19.61% interest in Monto Coal 2 Pty Ltd for $48,500,000 in cash, reducing the Group's ownership interest to 80.39%. Under the terms of the shareholder agreement, the Group no longer has control over this entity and, accordingly it has been deconsolidated and accounted for as an jointly controlled entity (refer to Note 31). The carrying amount of Monto Coal 2 Pty Ltd's net assets in the consolidated financial statements on the date of the disposal was $66,012,000. The Group recognised a profit (before tax) on disposal of $35,556,000.

Effect of disposal

The disposal had the following effect on the Group's assets and liabilities for the period:

	Pre-acquisition Carrying Amount $'000	Fair Value Adjustment $'000	Recognised values on acquisition $'000
Trade and other receivables	40,014	-	40,014
Property, plant and equipment	33,591	-	33,591
Other assets	13	-	13
Payables	(14)	-	(14)
Deferred tax liability	(7,592)	-	(7,592)
Net identifiable assets and liabilities	**66,012**	-	**66,012**
Carrying value of interest disposed			12,944
Consideration received, satisfied in cash			48,500
Net cash inflow			**48,500**

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37. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash flows from operating activities				
Profit for the period	72,684	66,544	12,629	63,684
Adjustments for:				
Depreciation	18,551	16,162	169	139
Intercompany debt forgiveness	-	-	34,301	-
Reversal of impairment losses	-	(91)	-	-
Amounts set aside to provisions	7,305	2,073	186	(43)
Exploration and evaluation expenses	363	916	-	-
Foreign exchange (gains)/losses	2,528	(2,016)	-	-
Overburden in advance written off	6,900	8,990	-	-
Write down of inventories to net realisable value	-	2,718	-	-
Interest on loans and borrowings	2,157	941	-	-
Interest on unwinding of discount	1,385	1,024	7	-
Borrowing costs	2,092	680	-	-
Loss on sale of property, plant and equipment	8	1,076	-	-
Gain on disposal of available-for-sale financial assets transferred from equity	(2,675)	(7,973)	(2,675)	(7,973)
Gain on disposal of non-current assets	(35,556)	(13,154)	(40,656)	-
Change in fair value of derivative liabilities	(210)	-	-	-
Share of equity profit/(loss) of equity accounted investees	3,666	-	221	-
Operating profit before changes in working capital and provisions	79,198	77,890	4,182	55,807
Increase/(decrease) in income tax payable	(6,770)	(37,625)	(6,770)	(37,625)
Increase/(decrease) in net deferred tax liabilities/assets	38,216	14,606	109	(201)
(Increase)/decrease in income tax receivable	(15,439)	-	(15,439)	-
(Increase)/decrease in tax related receivables	-	-	7,580	(14,831)
(Increase)/decrease in trade and other receivables	(55,664)	18,216	1,900	(586)
(Increase)/decrease in inventories	1,001	(15,933)	-	-
(Increase)/decrease in overburden in advance	(73,730)	(40,197)	-	-
(Increase)/decrease in deferred expenditure	-	-	-	-
Increase/(decrease) in trade and other payables	(2,680)	13,173	(681)	647
Net cash from operating activities	**(35,868)**	**30,130**	**(9,119)**	**3,211**

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38. RELATED PARTIES

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Keith De Lacy (Chairman)
Don Nissen (resigned 7 June 2008)
Roger Marshall
Peter Forbes
Ken Talbot (resigned 23 June 2008)
Chen Zeng (appointed 23 July 2007)

Executive director

Nicole Hollows

Executives

Ian Fuller (Chief Financial Officer, Macarthur Coal Limited, appointed 6 December 2007, resigned 7 May 2008)
Shane Stephan (Chief Development Officer, Macarthur Coal Limited)
Peter Kane (Chief Operating Officer, Macarthur Coal Limited, appointed 18 February 2008)
Lisa Dalton (Company Secretary, Macarthur Coal Limited)
Gary Lee (Vice President – Marketing, Macarthur Coal Limited)
Derick Wilford (Vice President – Business Improvement, Macarthur Coal Limited, resigned 31 January 2008)
Michael Gray (General Manager – Projects, Macarthur Coal Limited)
Ian McAleese (Vice President – Corporate Development, Mergers & Acquisitions, Macarthur Coal Limited, ceased key management role 6 December 2007)
Paul Smallbone (General Manager – Coppabella (SSE), Macarthur Coal Mine Management Pty Ltd, resigned 21 May 2008)
David Waddell (General Manager – Moorvale (SSE), Macarthur Coal Mine Management Pty Ltd)
Belinda Smith (Acting Chief Financial Officer, Macarthur Coal Limited, appointed 7 May 2008)

Key management compensation

The key management personnel compensation included in 'personnel expenses' (see Note 9) are as follows:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Short-term employee benefits	3,525,306	4,591,457	2,972,825	3,974,610
Other long-term benefits	102,418	8,794	100,205	8,794
Post-employment benefits	434,311	611,247	391,786	528,343
Termination benefits	117,290	234,928	54,217	234,928
Share based payments	339,521	179,500	339,521	179,500
	4,518,846	**5,625,926**	**3,858,554**	**4,926,175**

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38. RELATED PARTIES (cont)

Loans to key management personnel

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to key management personnel and their related parties are as follows:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Loans to key management personnel – unsecured	12,188	37,382	12,188	37,382
Number of key management personnel at 30 June	2	5	2	5

No loans were made to key management personnel during the year (2007: $Nil) in respect of the employee share loan plan. During the year, repayments of $28,933 (2007: $34,242) were made on the loans.

All loans to key management personnel in relation to the employee share loan plan are interest free and any dividends received on the allocated shares are applied to repay the loan balance. Fixed regular loan repayments are also made to repay the loan balance. No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

Had interest been charged on the loan balances, this would have amounted to a charge of $2,022 (2007: $3,121) for the period for all key management personnel loans.

Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report.

No director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Equity instruments

Options may be issued pursuant to the Executive Option Plan, refer Note 25 for further details. There were no options granted during the year.

Options and rights over equity instruments

There were no options held by key management personnel at any time during the reporting period. There was no movement during the reporting period in the number of options over ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties.

No options held by key management personnel are vested but not exercisable at 30 June 2007 or 2008. Refer to Note 25 'Share based payments – Executive Option Plan' for further details.

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38. RELATED PARTIES (cont)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Acquisitions	Received on exercise of options	Disposals	Held at 30 June 2008
Directors					
Keith De Lacy [2]	290,740	10,000 [2]	-	6,500	**294,240**
Roger Marshall [2]	134,240	10,000 [2]	-	-	**144,240**
Don Nissen [1] [2]	329,906	10,534 [2]	-	162,666	**177,774**
Peter Forbes [2]	32,240	10,000 [2]	-	-	**42,240**
Ken Talbot [1]	66,659,137	914	-	24,742,411	**41,917,640**
Nicole Hollows	10,000	-	-	-	**10,000**
Chen Zeng [1]	-	-	-	-	-
Executives					
Gary Lee	3,682	-	-	-	**3,682**
Shane Stephan	3,682	2,000	-	-	**5,682**
Ian McAleese [1]	5,500	-	-	-	**5,500**
Derick Wilford [1]	1,841	-	-	-	**1,841**
Michael Gray	1,841	-	-	-	**1,841**
Paul Smallbone	-	-	-	-	-
David Waddell	-	-	-	-	-
Lisa Dalton	-	-	-	-	-
Ian Fuller [1]	2,000	-	-	-	**2,000**
Peter Kane [1]	-	-	-	-	-
Belinda Smith [1]	1,104	-	-	-	**1,104**

[1] Shareholding information for key management personnel who were not key management personnel for the whole year is only for that portion of the year during which they held a key management position. For the purposes of this table, shares held at appointment are assumed to have been held at 1 July and shares held at termination are assumed to be held at 30 June, with any acquisitions or disposals prior to appointment or after termination not shown.

[2] Includes 10,000 shares granted as compensation.

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38. RELATED PARTIES (cont)

Movements in shares (cont)

The movement during the previous reporting period in the number of ordinary shares in Macarthur Coal Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2006	Acquisitions	Received on exercise of options	Disposals	Held at 30 June 2007
Directors					
Keith De Lacy [2]	280,740	10,000 [2]	-	-	**290,740**
Roger Marshall [2]	124,240	10,000 [2]	-	-	**134,240**
Don Nissen [2]	313,840	31,532 [2]	-	15,466	**329,906**
Peter Forbes [2]	22,240	10,000 [2]	-	-	**32,240**
Ken Talbot	66,659,137	-	-	-	**66,659,137**
Nicole Hollows	10,000	-	-	-	**10,000**
Executives					
Brett Garland	3,682	-	-	-	**3,682**
Robert Adams	3,682	-	-	-	**3,682**
Ian Neill	3,682	-	-	3,682	-
Gary Lee	3,682	-	-	-	**3,682**
Shane Stephan	3,682	-	-	-	**3,682**
Ian McAleese	5,000	2,500	-	2,000	**5,500**
Denis Wood	-	-	-	-	-
Ken Carnes	-	-	-	-	-
Derick Wilford	1,841	-	-	-	**1,841**
Michael Gray	1,841	-	-	-	**1,841**
Paul Smallbone	-	-	-	-	-
David Waddell	-	-	-	-	-
Lisa Dalton	-	-	-	-	-

[1] Shareholding information for key management personnel who were not key management personnel for the whole year is only for that portion of the year during which they held a key management position. For the purposes of this table, shares held at appointment are assumed to have been held at 1 July and shares held at termination are assumed to be held at 30 June, with any acquisitions or disposals prior to appointment or after termination not shown.

[2] Includes 10,000 shares granted as compensation.

No shares were granted to key management personnel during the reporting period as compensation, other than 10,000 shares acquired each by Keith De Lacy, Roger Marshall, Don Nissen and Peter Forbes (2007: 10,000 shares each) as application of past directors' fees received, as detailed in Note 3(m).

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38. RELATED PARTIES (cont)

Other key management personnel 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.

			Transaction value year ended 30 June		Balance outstanding as at 30 June	
	Transaction	Note	2008 $	2007 $	2008 $	2007 $
Key management personnel related parties and transactions						
Roger Marshall	Consulting fees	i	16,500	71,280	-	2,750

i The Group used the exploration consulting services of Mr Marshall in the course of its exploration activities. Amounts billed were based on normal market rates for such services and were due and payable under normal payment terms.

Amounts payable to specified directors and their personally-related entities at reporting date arising from related party transactions were as follows:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Current liabilities				
Trade and other payables	-	2,750	-	-

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

Belinda Smith, Acting Chief Financial Officer, Macarthur Coal Limited, resigned 6 August 2008
Shane Stephan, Acting Chief Financial Officer, Macarthur Coal Limited, appointed 6 August 2008

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38. RELATED PARTIES (cont)

Non-key management personnel disclosures

Identity of related parties

The Group has a related party relationship with its subsidiaries (see Note 34), joint ventures (see Note 30), jointly controlled entities (Note 31), associated entities (see Note 35) and its key management personnel (refer to disclosures with key management personnel on preceding pages). The Group also has a related party relationship with CITIC Australia Coal Pty Ltd and other members of the CITIC group of companies (CITIC). The related party relationship arises through CITIC's shareholding in Macarthur Coal Limited and its representation on the Board of Macarthur Coal Limited. In addition, CITIC is a party to several joint ventures to which members of the Macarthur Coal Group and other third parties are also members. These joint ventures undertake either exploration activities or operate working coal mines funded by cash calls in the normal course of business.

Subsidiaries

a) The Company charges and pays interest at normal commercial rates on loans to and from its wholly-owned controlled entities. The loans to and from the wholly-owned controlled entities are unsecured and have no fixed repayment terms. Interest is charged quarterly at 7.21% (2007: 8.285%) per annum on the outstanding balance. Net interest totalling $2,912,000 (2007: $8,822,000) was recognised by the Company 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 $4,122,000 (2007: $4,114,000) 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 $19,481,000 (2007: $54,340,000) to the Company.
d) The Company forgave loans made to Monto Coal 2 Pty Ltd during the time that it was a wholly-owned member of the Group. The amount of loans forgiven were $34,301,000.

The aggregate amounts receivable and payable by the Group and the Company from non-director related parties are shown in Notes 16 and 23. 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 Macarthur Coal (C&M Management) 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.

Macarthur Coal Mine Management Pty Ltd, a controlled entity, recharges employee expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are for work performed by Macarthur Coal Mine Management Pty Ltd staff in relation to Coppabella and Moorvale mine activities. Expenses totalling $18,403,000 (2007: $8,221,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year.

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38. RELATED PARTIES (cont)

Non-key management personnel disclosures (cont)

Associates

The Company recharges employee and administration expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are for administration costs and work performed by Company staff in relation to Coppabella and Moorvale mine activities. Expenses totalling $5,325,000 (2007: $3,741,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year.

Macarthur Coal (C&M Equipment) Pty Ltd, an associated entity, recharges lease expenses, interest and depreciation expenses at cost to Macarthur Coal (C&M Management) Pty Ltd, an associated entity, and the Coppabella and Moorvale Joint Venture. The expenses are associated with mining equipment used in relation to Coppabella and Moorvale mine activities. Expenses totalling $16,954,000 (2007: $6,371,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year. The Group has a 73.3% interest in this joint venture.

Jointly controlled entities

Custom Mining Limited, a controlled entity makes contributions to Middlemount Coal Pty Ltd for the purposes of funding the activities of the Middlemount Coal project, in line with the shareholders agreement. Contributions totalling $15,610,000 were made during the year (2007: $Nil). An additional amount of $1,000,000 was advanced to Custom Mining Limited by Macarthur Coal Limited to fund other corporate costs.

The Company has a related entity payable to Monto Coal 2 Pty Ltd of $40,000,000 which is payable to cover costs related to the development of stage 1 of the Monto Coal Joint Venture.

39. SUBSEQUENT EVENTS

Subsequent to 30 June 2008, Custom Mining Limited, a controlled entity entered into an agreement for the partial sell down of its interest in Custom Mining Dingo Pty Ltd, a wholly owned controlled entity, to a third party. Custom Mining Dingo Pty Ltd has a farm-in agreement for up to 70% of the Dingo West Joint Venture. The sell down is through two parts, the first being a 14.285% interest for $6,500,000, which has taken place at the time of signing the financial statements, and the second part being a further 12.857% interest for purchase consideration equal to an agreed price at the time of the transaction.

There were no other matters arising subsequent to the end of the financial year that would have a material impact on the Company or the Group.

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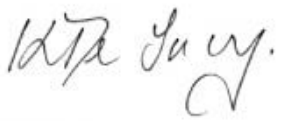
DIRECTORS' DECLARATION

1. In the opinion of the directors of Macarthur Coal Limited ('the Company'):
   a) the financial statements and notes set out on pages 53 to 129, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report set out on pages 41 to 49, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
   b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);
   c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the *Corporations Act 2001* and the *Corporations Regulations 2001*; and
   d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2008.

Dated at Brisbane this 9th day of September 2008.

Signed in accordance with a resolution of the directors:



Keith De Lacy
Chairman

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KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED

Report on the financial report

We have audited the accompanying financial report of Macarthur Coal Limited (the Company), which comprises the balance sheets at as 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 39 and the directors' declaration set out on pages 53 to 130 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial reports of the Group and the Company, comprising the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporation Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Macarthur Coal Limited on 9 September 2008, would be unchanged if provided to the directors at the date of this auditor's report.

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED (cont)

Auditor's opinion

In our opinion:

a) the financial report of Macarthur Coal Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 41 to 49 of the Directors' Report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macarthur Coal Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Warren Austin
Partner

Brisbane
10 September 2008

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Investor Quick Reference Guide

Additional copies of this report can be obtained by contacting the Communications Officer (see contact details on page 134). An interactive version and a PDF version are also available on the Macarthur Coal corporate website at www.macarthurcoal.com.au.

CALENDAR OF EVENTS

Event	Date
Annual General Meeting	11am Wednesday 19 November 2008 Queens Ballroom Level 5, Hilton International 190 Elizabeth Street Brisbane QLD 4000
September 2008 Quarterly Report lodged with the ASX	By 31 October 2008
December 2008 Quarterly Report lodged with the ASX	By 30 January 2009
2009 First Half Interim Financial Report	By 27 February 2009
March 2009 Quarterly Report lodged with the ASX	By 30 April 2009
June 2009 Quarterly Report lodged with the ASX	By 31 July 2009
Full Year Results lodged with the ASX	By 28 August 2009
Annual Report lodged with the ASX	By 30 October 2009

Please note that all documents lodged with the ASX are also provided in the Investor Relations section of the Macarthur Coal corporate website.

Dividend Policy

The Macarthur Coal dividend policy is to pay approximately 50% of NPAT as a dividend.

Shareholder Communication Policy

Macarthur Coal is dedicated to providing current and potential shareholders with timely, balanced communication using plain language. The Shareholder Communication Policy is available on Macarthur Coal's corporate website.

Continuous Disclosure

Copies of Macarthur Coal's announcements since the company listed as a public company (including all quarterly, half-yearly and annual reports) are available on Macarthur Coal's corporate website.

You may register to receive ASX announcements via email by using the 'Register for News' function on the company's corporate website.

Website

Macarthur Coal's corporate website enables stakeholders to access company information at their convenience. The website contains the following:

- Macarthur Coal's mining interests
- General company information
- Macarthur Coal's project portfolio
- Details of Board of Directors and Executive Committee
- Share price
- Share registry details
- All announcements made to the ASX
- General meeting information
  - Notices of meeting
  - Chairman's and CEO's addresses
  - Resolution results
- Corporate governance policies.

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Share Registry Details

Computershare Ltd maintains Macarthur Coal's share registry.

Computershare Ltd
Level 19, 307 Queen St, Brisbane QLD 4000
GPO Box 523, Brisbane QLD 4001
Phone: 1300 552 700 (within Australia)
61 7 3237 2100 (outside Australia)
Fax: 07 3229 9860
Website: www.computershare.com.a.

The following shareholder forms are available from Computershare and are on the Computershare website:

- 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.

Shareholder Feedback

Feedback or comments with respect to shareholder communications are welcome. Please direct any communications to the Communications Officer (see contact details below).

Communications Officer
Macarthur Coal Ltd
100 Melbourne St
South Brisbane QLD 4101
Email: info@maccoal.com.au
Phone: 07 3221 7210
Fax: 07 3229 1779

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Additional Shareholder Information

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report is set out below:

SUBSTANTIAL SHAREHOLDERS AS AT 12 SEPTEMBER 2007

Name	Percentage
CITIC Australia Coal Pty Ltd	20.39
ArcelorMittal	19.90
POSCO A/C	10.00

Voting Rights

Ordinary shares – Refer to Note 28 of the financial statements

Employee shares – Refer to Note 25 of the financial statements

Options – Refer to Note 25 of the financial statements

DISTRIBUTION OF SHAREHOLDERS AND THEIR HOLDING AS AT 12 SEPTEMBER 2008

Shareholders	Number of shareholders	Number of shares
1 to 1,000	3,145	1,647,605
1,001 to 5,000	2,495	6,476,911
5,001 to 10,000	480	3,612,287
10,001 to 100,000	304	7,154,739
100,001 and over	54	193,265,197

The number of shareholders holding less than a marketable parcel of ordinary shares is 79.

There is no current on-market buyback.

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ADDITIONAL SHAREHOLDER INFORMATION

20 LARGEST SHAREHOLDERS AS AT 12 SEPTEMBER 2008

#	Name	Percentage	# of Shares
1	CITIC Australia Coal Pty Ltd	20.39	43,249,484
2	ArcelorMittal	19.90	42,219,184
3	POSCO A/C	10.00	21,215,700
4	HSBC Custody Nominees (Australia) Ltd	7.08	15,010,567
5	MDA Investments Pty Ltd	4.71	10,000,000
6	CITICORP Nominees Pty Ltd	4.18	8,869,544
7	National Nominees Ltd	3.87	8,211,399
8	JP Morgan Nominees Australia Ltd	3.56	7,554,942
9	Goldman Sachs JB Were Capital Markets Ltd	2.78	5,888,664
10	ANZ Nominees Ltd Cash Income A/C	1.57	3,335,816
11	HSBC Custody Nominees (Australia) Ltd – GSCO ECSA	1.52	3,232,747
12	HSBC Custody Nominees (Australia) Ltd – A/C 2	1.20	2,542,698
13	Tinkler Investments Pty Ltd	0.76	1,606,313
14	Brainpro Nominees Pty Ltd	0.70	1,482,411
15	AMP Life Ltd	0.68	1,451,913
16	Clem Jones Pty Ltd	0.67	1,425,000
17	Citicorp Nominees Pty Ltd	0.60	1,271,002
18	RBC Dexia Investor Services Australia Nominees Pty Ltd	0.58	1,228,171
19	Cogent Nominees Pty Ltd	0.55	1,169,000
20	Merrill Lynch (Australia) Nominees Pty Ltd	0.54	1,146,292

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Glossary and Abbreviations

$M
Million dollars

AAICD
Associate of the Australian Institute of Company Directors

ACIS
Associate of Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia

AGM
Annual General Meeting

AM
Member of the Order of Australia

ASIA
Associate of the Securities Institute of Australia

ASIC
Australian Securities and Investments Commission

ASX
Australian Securities Exchange

BA
Bachelor of Arts

BAppSc
Bachelor of Applied Science

BBus
Bachelor of Business

BE
Bachelor of Engineering

Bowen Basin
The principal coal mining area in Queensland, Australia

CA
Chartered Accountant

Coking coal
Coal which is suitable for making coke

Corporate governance
The system by which companies are managed and directed

CPA
Certified Public Accountant

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, Australia

DipAICD
Diploma from the Australian Institute of Company Directors

Dividend
Payment from a company's profits to its shareholders

Dragline
A large earthmoving machine with a bucket suspended by cables from a crane-like boom

DUniv
Doctorate of University

EA
Environmental Authority

EBIT
Earnings before interest and tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

EPA
Environmental Protection Agency

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GLOSSARY AND ABBREVIATIONS

EPC
Exploration permit for coal

FAICD
Fellow of the Australian Institute of Company Directors

FAIM
Fellow of the Australian Institute of Management

Farm-in agreement
A commitment to spend money to earn an interest in a prospect (through exploration or investment for example)

FAusIMM
Fellow of the Australasian Institute of Mining and Metallurgy

FCIS
Fellow o. Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia

FCPA
Fellow of Certified Public Accountants

GAICD
Graduate of the Australian Institute of Company Directors

Geological modeling
The recording of physical characteristics of different rock types from boreholes

GradDipAdvAcctg
Graduate Diploma in Advanced Accounting

GradDipCSP
Graduate Diploma in Company Secretarial Practice

Hedging
A process to protect against or reduce a risk

HonDLitt
Honorary Doctorate of Literature

Incorporated joint venture
A business structure where the joint venture participants are shareholders in one company and that company owns the project

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 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.

Inferred Resource
That part of a Mineral Resource 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.

JORC Code
A code prepared by the Joint Ore Reserve Committee which defines criteria for publicly reporting Resources and Reserves

KPIs
Key performance indicators

Low volatile coal
Coal with less than 17% volatile matter

LV PCI coal
Low volatile PCI coal which is used in blast furnaces in the making of iron for steel

MAppSc
Master of Applied Science

MAusIMM
Member of the Australasian Institute of Mining and Metallurgy

MBA (AGSM)
Master of Business Administration from the Australian Graduate School of Management

PREVIOUS NEXT

COMMUNICATION OBJECTIVE
HIGHLIGHTS & ACHIEVEMENTS
CHALLENGES
FINANCIAL RESULTS
OUR FINANCIAL CONTRIBUTION TO THE ECONOMIES OF THE REGION, STATE & COUNTRY
OUR TOP 5 PRIORITIES FOR 2008
OUR PROFILE
OUR TOP 5 PRIORITIES FOR 2009
CHAIRMAN'S REPORT
CEO'S REPORT
OUR OPERATIONAL PERFORMANCE
CORPORATE SOCIAL RESPONSIBILITY
LEADERSHIP & MANAGEMENT
DIRECTORS' REPORT
FINANCIAL PERFORMANCE

MDL
Mineral development licence

ME
Master 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

ML
Mining lease

Ml
Megalitres

MLA
Mining lease application

Mt
Million tonnes

NPAT
Net profit after tax

OBE
Order of the British Empire

Open-cut mine
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

QDA
Queensland Diploma of Agriculture

Reserves
The economically mineable part of Measured or Indicated Coal Resource as at the time of reporting as defined in the JORC Code

Resources
The part of the coal deposit for which there is a reasonable prospect for eventual economic extraction as defined in the JORC Code

ROM
Run of mine – coal before it has been washed and prepared for sale

Royalties
State government charges for the mining of coal

Slimcore
A borecore of less than 90mm in diameter

Strike length
The length of a deposit able to be accessed for mining

Tenement
A mining lease, exploration permit or mineral development licence

Thermal coal
Coal which is combusted to provide heat for steam generation and subsequent power generation

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

PREVIOUS