

# MACARTHUR

COAL

ANNUAL REPORT  
2010 - 2011

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# HIGHLIGHTS AND CHALLENGES

## HIGHLIGHTS

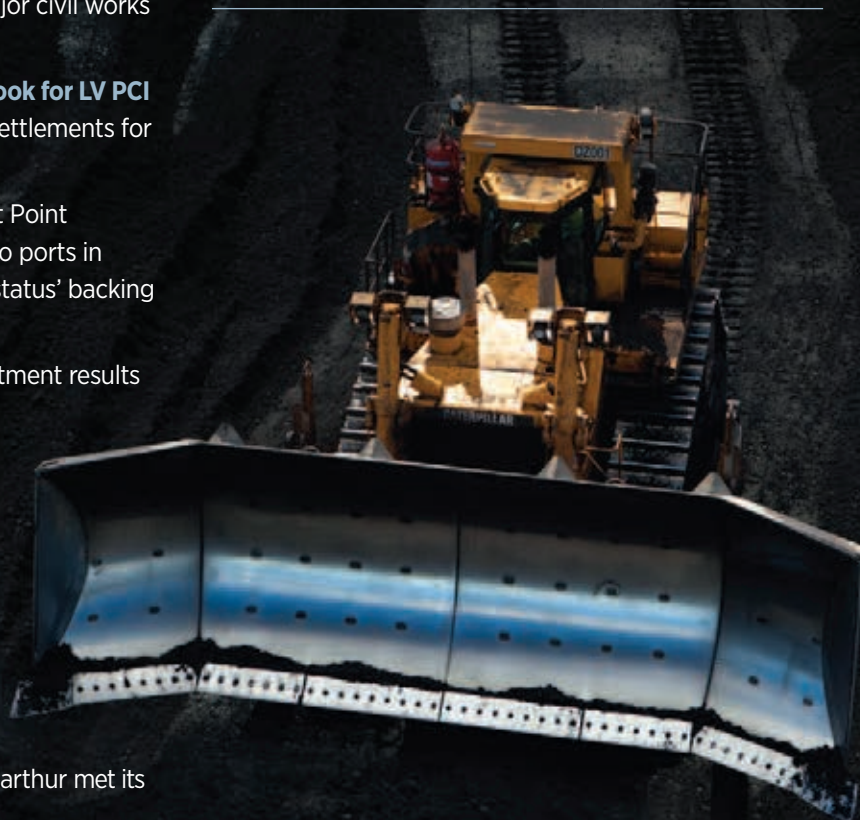
- **Net profit after tax of \$241.4 million** – a 93% increase on the previous financial year.
- **A 46% increase in Macarthur Coal's share of resources to 1.76 billion tonnes** – due to upgrades to West Rolleston, Vermont East, Willunga, Middlemount and Yeerun, see Resources and Reserves Statement on page 30.
- **Codrilla selected as the fourth mine project** – sell down of interests to the CMJV supports project value – underpinned by existing infrastructure and port capacity and continuing growth in demand for Macarthur's LV PCI coal product.
- **Middlemount reached final stages of development** – bulk samples shipped to customers, CHPP and major civil works complete and rail infrastructure progressed.
- **Strong demand and positive long-term outlook for LV PCI coal** – market records historically high price settlements for LV PCI in the June quarter.
- **Long-term port capacity of 9.4Mtpa** – Abbot Point capacity will provide diversification across two ports in FY2012 and Macarthur has 'capacity priority status' backing its application for Stage 2 of Wiggins Island.
- **Skilled and dedicated people** – strong recruitment results coupled with a 90% retention rate.

## CHALLENGES

- **Record rainfall in the Bowen Basin** – resulted in the declaration of *force majeure* under customer contracts for five months for Coppabella and Moorvale mines.
- **Revised production target from 5Mt to 3.8Mt-4.0Mt** – despite the unseasonal wet weather and record number of rain days, Macarthur met its revised sales targets by shipping 3.9Mt of coal.
- **Regulatory uncertainty due to policy changes at the Federal and State Government levels** – Macarthur lobbied the Government in regard to the cost and emissions implications of the Minerals Resource Rent Tax and the carbon price.

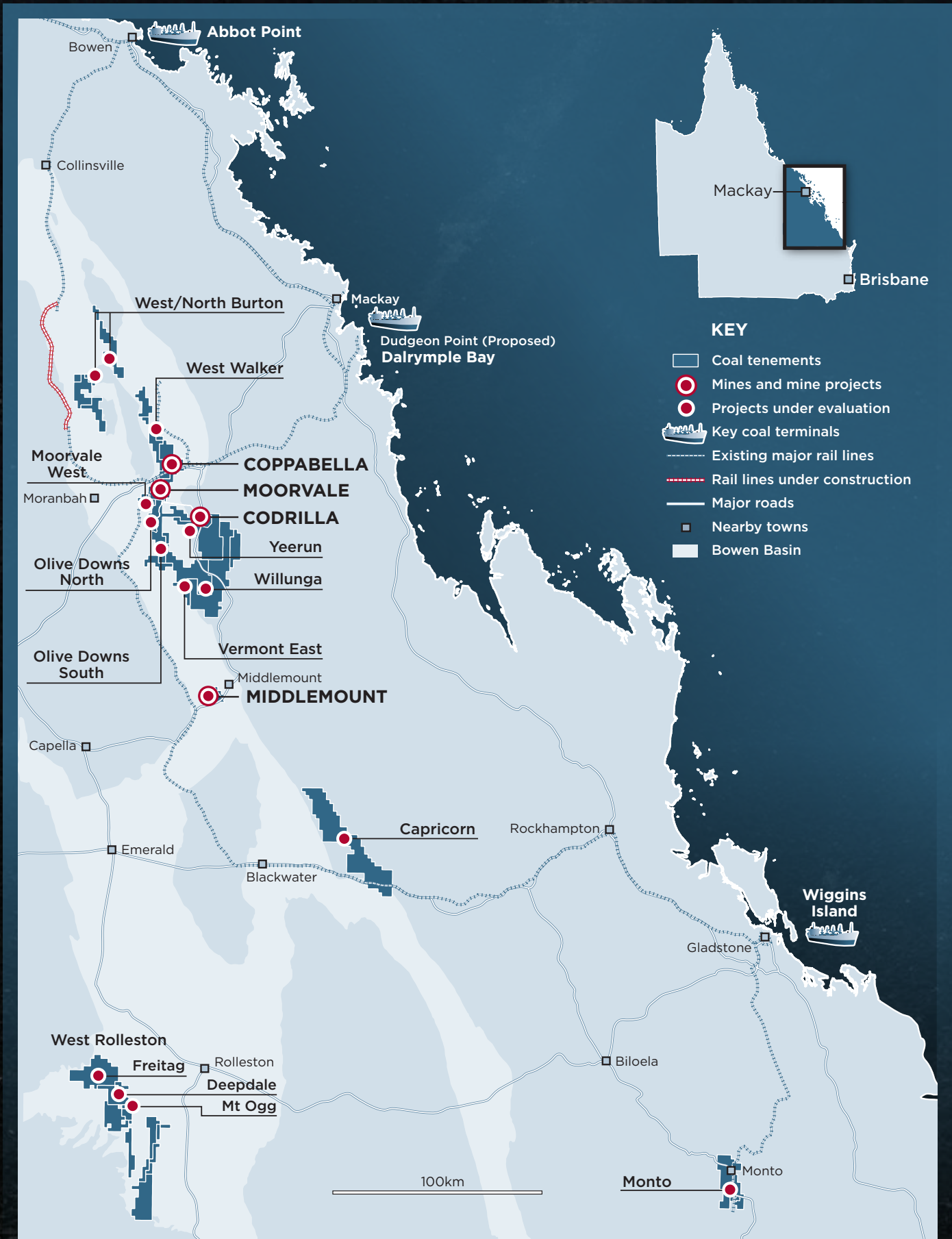
## FINANCIAL RESULTS

		2011	2010	Variance %
Revenue from coal sales	\$M	687.3	670.5	↑ 3%
EBITDA	\$M	345.4	213.1	↑ 62%
EBIT	\$M	314.7	181.8	↑ 73%
Net profit after tax (NPAT)	\$M	241.4	125.1	↑ 93%
Earnings per share	cents	82.8	49.3	↑ 68%
Dividends per share	cents	40.0	25.0	↑ 60%



A bird's eye view of the Coppabella Mine product stockpile – bulldozer moving 'Coppabella PCI' coal in preparation for a train loading in June 2011.

# TENEMENT MAP



**KEY**

- Coal tenements
- Mines and mine projects
- Projects under evaluation
- Key coal terminals
- Existing major rail lines
- Rail lines under construction
- Major roads
- Nearby towns
- Bowen Basin

# PROFILE

Macarthur Coal Limited (ASX: MCC) listed on the Australian Securities Exchange in 2001 and is an Australian corporate success story. Its core activities are exploration, project evaluation and development, mining and marketing of metallurgical coal. It is the world's largest producer of seaborne low volatile pulverised coal injection (LV PCI) coal, which is used for steel making.

Macarthur Coal's strategic goal is to double its 2009 production result to achieve coal sales of 9.2Mtpa by 2014 through the development of the Middlemount and Codrilla mine projects.

The Company's long-term growth plans for product diversification will be achieved by continuing to evaluate and develop its tenement portfolio and through potential acquisitions. The Company's mining assets are currently in the Bowen Basin and its corporate office is in Queensland's capital, Brisbane.

## MARKET POSITION

Macarthur Coal is a leading independent coal company in Australia and a mainstay in the ASX top 100 listed companies. As at 17 August 2011, the Company had a market capitalisation of \$4.6 billion. Macarthur is responsible for marketing approximately one third of the world's seaborne LV PCI coal exports to steel mills in Asia, Europe and South America.

Macarthur's 'Coppabella PCI' product is considered the international benchmark for premium LV PCI coal.

## BUSINESS STRUCTURE

Macarthur Coal's business structure allows the Company to gain significant strategic benefits by involving other parties in its projects. Macarthur Coal's major assets and its relevant interests are:

- **Coppabella, Moorvale and Codrilla** Macarthur holds a 73.3% interest in the Coppabella Mine, Moorvale Mine and Codrilla Mine Project through the Coppabella and Moorvale Joint Venture (CMJV). The Company is entitled to 73.3% of the proceeds from the sale of the coal produced at Coppabella, Moorvale and future sales from Codrilla. The other CMJV participants are CITIC Group, Marubeni Corporation, Sojitz Corporation, JFE Shoji Trade Corporation and Nippon Steel Corporation.

- **Middlemount**

Macarthur holds a 50.0003% share of the Middlemount Mine Project through its shareholding in Middlemount Coal Pty Ltd and is entitled to receive 50% of profits distributed by Middlemount Coal Pty Ltd to its shareholders.

- **Tenement Portfolio**

Macarthur's prospective tenement portfolio of coal mining assets is at various stages of exploration, concept and feasibility study. These assets are held in a number of unincorporated joint ventures. See pages 38-44.

## BUSINESS ACTIVITIES

Macarthur Coal is engaged by the CMJV to manage its two operating mines, Coppabella and Moorvale. Macarthur also manages the global marketing of the CMJV's coal sales and the exploration and evaluation of the assets in the tenement portfolio, including the development of the Codrilla Mine Project.

The Company employs around 900 people as direct employees and contractors. Macarthur Coal is directly responsible for the mining operations at Coppabella, while contractors are engaged to undertake mining operations at Moorvale and Middlemount.

## SHAREHOLDERS

As at 17 August 2011, Macarthur Coal had more than 8,800 shareholders and a total of 302,092,343 ordinary fully-paid shares on issue.

The top three shareholders are CITIC Group (25.2%), ArcelorMittal Netherlands BV (16.07%) and National Nominees Limited (11.74%). For additional shareholder information see page 167.

## STAKEHOLDERS

Macarthur Coal is committed to providing a safe place to work for its employees and to giving back to the communities that host its operations. The Company is working closely with government to meet its regulatory obligations in relation to environmental management and to minimise the impact of operations on the environment.

## ABOUT THIS REPORT

The 2011 Annual Report is a summary of Macarthur Coal Limited's operations, activities and financial position as at 30 June 2011.

Unless otherwise stated:

- All sales and production statistics represent Macarthur Coal Limited's attributable share.
- All years relate to financial years.
- All dollar amounts are in Australian dollars.
- 'Macarthur Coal', 'Macarthur' and 'the Company' refer to the parent company Macarthur Coal Limited (ABN 40 096 001 955) and its controlled entities.
- The text does not distinguish between the activities of the parent company and those of its controlled entities including Macarthur Coal (C&M Management) Pty Ltd.

This Annual Report is printed on environmentally responsible paper and is only posted to shareholders and interested parties who elect to receive a printed copy. An electronic copy is available on the Company's web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au) and DVD versions are available on request.



# CELEBRATING A SUCCESSFUL DECADE

THESE MILESTONES ARE RECORDED IN CALENDAR YEARS.

## 2001

**VISION: TO DEVELOP A MAJOR BOWEN BASIN COAL RESOURCES COMPANY WITH ABOVE AVERAGE INVESTMENT RETURNS FOR SHAREHOLDERS.**

Macarthur Coal Limited became incorporated and listed on the Australian Securities Exchange on 5 July, with a market value of \$128.5 million and an interest in one operating mine, Coppabella.

## 2002

In December 2002 Macarthur raised \$30 million to fund the development of Moorvale, its second mine. Moorvale's mining lease was granted in that same month and mining operations commenced.

## 2003

In January 2003 dragline production commenced at Coppabella Mine. In March 2003 the first coal was mined from Moorvale Mine and by December the mine's infrastructure was completed and the Coppabella and Moorvale Joint Venture was formed.

## 2004

Macarthur Coal experienced 12 months of significant operational growth. During the course of the year Coppabella more than halved its total recordable injury frequency rate.

## 2005

Macarthur Coal entered the ASX 200 index in March 2005. In that same month, Coppabella Mine reached a production milestone of 30Mt of ROM coal (100% basis) since its feasibility study in 1997.

## 2006

Macarthur began the transition to owner-operator at the Coppabella Mine in December 2006.

## 2007

Amidst record drought conditions, the multi-million dollar Burdekin-to-Moranbah Water Pipeline was commissioned in October 2007, securing water supply for Bowen Basin mines including Macarthur's. In that same month, Moorvale Mine coal handling and processing plant was upgraded to 600tph.

## 2008

Macarthur acquired a 74.66% interest in the Middlemount Mine Project in January 2008. In June 2008 the transition to owner-operator at Coppabella Mine was successfully completed. Between June and December Macarthur had a record 11 exploration rigs in operation.

## 2009

The mining lease was granted for Middlemount Mine in September 2009. In December 2009 Coppabella Mine reached a production milestone of 50Mt of ROM coal (100% basis) since its feasibility study in 1997.

## 2010

Macarthur Coal continued to improve its staff engagement, achieving a record staff retention rate during a year of increased corporate activity and unprecedented wet seasons.

## 2011

### **VISION: TO BE THE NUMBER ONE INDEPENDENT COAL COMPANY.**

Codrilla was announced as Macarthur's fourth mine for development in May 2011. Macarthur Coal celebrated its 10th anniversary as a listed company on 5 July 2011 - ranked at number 66 on the ASX top 100 with coal resources of more than 1.76 billion tonnes. Refer to the Resources and Reserves Statement on page 30.



**MACARTHUR**  
COAL

Macarthur Coal marked the 10th anniversary of its listing on the Australian Securities Exchange with a brand revival designed to better reflect the Company's positioning and to support its growth strategy for the next decade.

The decision to update the existing diamond icon, which had supported the Company through 10 years of extraordinary success, reflects the fact that Macarthur Coal is both proud of its past and firmly focused on its goals for the future.

The new logo was officially unveiled on 5 July 2011 - a progressive treatment of the Company's diamond icon which uses a softer, streamlined diamond, which represents the more rounded, mature organisation Macarthur has become. The lines of varying thickness represent the coal seams and overburden that feature in open cut coal mines.

The central line at the heart of the new logo represents a coal seam - a fitting symbol for Macarthur's vision to be the number one independent coal company.

## VISION

To be the number one independent coal company

## VALUES

Value people    Work together    Lead the way    Talk straight

The way Macarthur Coal goes about achieving its results is just as important as the results themselves and for that reason the Company's values are more than just words on a page. The values are known as the "Four Pillars" and they support the organisation's vision, strategy and culture.

Macarthur Coal expects its employees and contractors to embody the pillars every time they undertake a task and particularly when they interact with all stakeholders, including customers, suppliers and the communities in which Macarthur operates.

## STRATEGIC OBJECTIVES

Operational Excellence and Sustainable Growth



## STRATEGIC GOAL

To safely and profitably achieve Macarthur Coal attributable coal sales of 9.2Mtpa by 30 June 2014

Macarthur Coal has resources of 1.76 billion tonnes (as outlined in the Resources and Reserves Statement on page 30), two operational mines and significant operational capability, including a third and fourth mine in development. The Company has port capacity to support a projected increase in export sales and a cash position ready to execute its growth strategies to 2014 and beyond.

In the past 10 years Macarthur Coal's focus on strategy has yielded results. The Company has delivered on its promise to provide shareholders with long-term value, delivering a total shareholder return of 1,068% since July 2001. The value of Macarthur Coal has grown significantly. Starting

with a market capitalisation of \$128.5 billion, it has reached \$4.6 billion as at 17 August 2011.

In 2009, Macarthur Coal announced it would double production in five years, which means achieving coal sales of 9.2Mtpa by 2014. This ambitious target is closer to being realised with Middlemount Mine in the final stages of development and the announcement of Codrilla as Macarthur's fourth mine project. The combination of coal sales from Coppabella, Moorvale, Middlemount and Codrilla can deliver 9.2Mtpa for Macarthur Coal and ensure the success of this growth strategy.

All business activities are focused on the 9.2Mtpa sales target and supported by two strategic objectives – operational excellence and sustainable growth.

Operational excellence requires management of the Company's assets in a safe and cost efficient way to achieve production, sales and shareholder return targets, while, at the same time, minimising the impact on the environment and community.

Sustainable growth requires the extension of the life of existing mines, development of prospective tenements into new operating mines and the potential acquisition of assets for future diversification. Macarthur Coal is committed to securing the employees, community and government support, infrastructure and customers to support this growth.



# PERFORMANCE SUMMARY

Macarthur Coal set specific targets for the 2011 financial year against a range of strategic drivers and this is a summary of the results.

STRATEGIC OBJECTIVES	STRATEGIC DRIVERS	2011 TARGETS	2011 PERFORMANCE	PAGE REF	
OPERATIONAL EXCELLENCE	Safety	Overall Total Recordable Injury Frequency Rate (TRIFR) <20.2	Overall TRIFR = 14.0	18	
	Environment	No major environmental non-conformances	No penalty infringement notices recorded, however there were five non-compliant water releases reported	46	
		Complete water management infrastructure at sites	Water storage capacity was increased at three dams through dredging and wall raises, two diversions/levees were completed to minimise water run-off, and automated monitoring systems were set up on dams and at discharge points	46	
		Completion and evaluation of 65 hectares of rehabilitation	Unseasonal wet weather resulted in access and planting restrictions – 13 hectares were rehabilitated	46	
	People	Employee turnover to be 15% or less	Employee turnover 10.2%	52	
	Production and sales	6.8Mt coal mined (ROM)	4.7Mt ROM coal mined due to record wet season	16	
		5.0Mt coal sold	3.9Mt coal sold with five months of <i>force majeure</i> declared under customer contracts	16	
		Minimal non-moisture penalties Maximise metallurgical coal sales	Non-moisture penalties better than target Metallurgical coal sales accounted for 91%, down from 93% due to weather constrained blending opportunities. There was a slight increase in premium coking coal sales from 3% to 5%	26	
	Carbon	Progress carbon emission reduction initiatives in accordance with plans	Implementation of three energy efficiency initiatives and investigation of 46 energy saving actions across Coppabella and Moorvale mines	50	
		Implement Energy Management Policy principles and objectives	Three policies were implemented – Energy Management, Climate Change and Carbon Pricing	50	
	Cost management	Conduct a Business System Improvement project to improve systems and maximise benefits from Enterprise Resource Planning system Roll out a Knowledge Management System for the business	Business Process Improvement team was established and delivered to the 2011 target, overseeing 19 projects, nine of which were delivered, with the remainder on schedule for completion in FY2012 Document Management System and document standards implemented	-	
		Overburden mining costs (\$/bcm) at Coppabella Mine lower than 2010 Mining costs at Moorvale Mine to be 2011 budgeted costs or lower	Overburden removal costs were higher than 2010, as lower volumes (as a result of wet weather) were spread over a relatively fixed cost base and also subject to other inflationary pressures	12	
	SUSTAINABLE GROWTH	Development of Middlemount	Commence production at Middlemount Mine	Transitioning from development to production – Macarthur’s attributable share of bulk samples sold to customers was 41,400 tonnes	34
			Commence construction of rail loop and installation of stand alone water connection and power supply	Construction works commenced and on track to complete the Middlemount rail spur by late CY2011 There is sufficient water supply on-site to finalise construction and commence operations – a stand alone water connection is expected to be completed in the first half of FY2012. Power is currently supplied by diesel generators with grid connection expected by early CY2012	34
Secure EIS approval to increase production up to a maximum of 5.4Mtpa ROM			Supplementary EIS lodged with regulators in July 2011 and an Environmental Authority to increase production is expected by July 2012	34	
Exploration and tenement portfolio		\$18.8 million of exploration and evaluation expenditure	\$13.5 million was spent on exploration activities, a reduction on the target due to wet weather and access restrictions	32	
		Increase and improve JORC status of Resources and Reserves	Macarthur’s attributable share of resources increased from 1.2 billion to 1.76 billion tonnes’ (46% increase) Macarthur’s attributable share of reserves increased from 131.9Mt to 167.5Mt’ (27% increase)	30	
Advancing tenements from the portfolio		Submit the Codrilla EIS for public comment by October 2010 and complete the feasibility study for Codrilla by December 2010	Codrilla selected as Macarthur’s fourth mine project in May 2011, draft EIS submitted in September 2010, supplementary EIS submitted in June 2011	36	
		Complete the pre-feasibility study for Willunga by December 2010	Pre-feasibility study completed and work commenced on EIS and port capacity applications	40	
		Complete concept study for West Rolleston by June 2011	Despite delays to exploration and evaluation activities due to wet weather, JORC resources were upgraded from 80Mt to 369Mt’ and work commenced on port capacity applications	43	
Sustainable culture		Third culture audit to be conducted in December 2010 demonstrating an improvement on the 2009 staff satisfaction results	Employees’ engagement and satisfaction levels from the third culture audit in December 2010 were 76%, up from 56% in December 2009	52	
		Two Working Together programs to be held in 2011 to ensure positive communication and interaction between corporate office and the mine sites with an attendee satisfaction rating of at least 85%	Working Together programs were held in November and April of the financial year and both programs received attendee satisfaction ratings in excess of 85%	-	
Building talent		100% training and development plans in place for all employees	100% of employees had training and development plans in place as part of new induction process	-	
		75% training and development plan completed by all employees	82% of planned training was delivered to all employees	-	

# KEY PERFORMANCE INDICATORS

In 2012, Macarthur Coal will measure its success against the following key performance indicators:

- **Safety performance** – to achieve a TRIFR of 7.0, which equates to a 50% improvement on the 2011 financial year.
- **Environmental responsibility** – to record no material breaches, improved water management and rehabilitation performance.
- **Tonnage growth** – to increase coal sales to 5.0–5.3Mtpa from Coppabella, Moorvale and Middlemount.
- **Project development** – to reach full-scale production at Middlemount Mine and undertake preparations for the commencement of construction activities for the Codrilla Mine Project.
- **Valuing people** – to maintain an employee retention rate of more than 85% and an employee engagement rate of more than 75%.

## Horizon focal points for opportunity

Beyond 2014 Macarthur Coal has clear focal points for future strategy development including:

- projected continuing demand for commodities from the emerging economies of China (outlook for sustained demand to 2021) and India (outlook for sustained demand to 2037)<sup>2</sup>
- anticipated increase in demand for LV PCI coal in the steel making process to compensate for the depletion of high quality iron ore reserves in Australia and overseas
- increased competitiveness of LV PCI coal for the steelmakers as a lower emission substitute for coking coal
- opportunities to participate in the expansion of port and rail infrastructure as owner-operator
- increased competition from new frontier coalfields in provinces such as Mongolia and Africa
- emergence of proven assets onto the market that could provide the opportunity for an acquisition
- increased viability of innovative strategies to generate power to sites through fugitive capture and conversion.

<sup>1</sup> Refer to the Resources and Reserves Statement on page 30.

<sup>2</sup> Eslake, Saul (2011), 'Commodity Prices', Paper presented to the International Conference of Commercial Bank Economists, Amsterdam, June.



# CHAIRMAN'S REPORT



## A RECORD OF SHAREHOLDER VALUE

On 5 July 2001, Macarthur Coal listed on the Australian Securities Exchange (ASX) with a market capitalisation of \$128.5 million.

Shareholders who invested in the Company on 5 July 2001 would have received a total shareholder return (TSR) of 1,068% over the past 10 years to 30 June, which ranks Macarthur second overall in the ASX 300 over the same period.

As at 17 August 2011, Macarthur Coal had a market capitalisation of \$4.6 billion, making us the third largest Queensland-based company by market capitalisation.

## MATURE STRATEGIC APPROACH

Macarthur Coal's steep trajectory to success has been remarkable, but the Company's conversion from entrepreneurial start-up to consistent strategic performer and as a mainstay in the ASX top 100, is even more compelling.

What makes shareholder value?

Turning reserves into value requires investment in physical assets, without this, no miner can turn coal into product, product into profit and profit into shareholder returns.

Over 10 years Macarthur has, through effective joint ventures, been able to deliver three mines – building expertise and execution capability with each successive project.

Coppabella and Moorvale mines have helped shape the thinking about the Middlemount Mine Project, and now the development of Codrilla, which will transition from start-up to full production in the next three years. Macarthur Coal has developed significant operational capability, but it is the execution of our strategy that will deliver sustainable growth.

We have now moved beyond the game of just building and operating mines. We are now moving to manage the future infrastructure and financial position required to create an ongoing pipeline for future growth.

## CELEBRATING TEN SUCCESSFUL YEARS

Recently shareholders helped us to celebrate 10 years as a public company. As I reflect on Macarthur's bold beginnings and see the Macarthur Coal of today, I cannot ignore the qualities that are tell-tale indicators of Macarthur's success. We recognise Macarthur values and a 'Macarthur Way', but these have also been recognised by others.

One of the qualities of effective companies is good governance. I am proud that in every one of the past five years, we have received formal recognition of this through the Australasian Reporting Awards. In 2010, our governance was specifically commended. Our Annual Report has been recognised as giving our shareholders a transparent view of an effectively-governed company.

I was also reminded that the relationships Macarthur Coal enjoys in the towns supporting our mines reflect the 'Macarthur Way'. Since the early days of Coppabella, Macarthur Coal has established important relationships with the town of Nebo. Many Macarthur miners have been a part of the community and our organisation has participated in local initiatives, including strategies to improve road safety and the establishment of institutions like the Nebo News.

In the year ahead, we will enter a new era of community engagement as we develop new mines in the Bowen Basin.

Macarthur's people also tell a story of success. At listing, we directly employed approximately 20 people. In 2011 we counted 900 staff and contractors within our Company.

Macarthur has met its challenges head on, celebrated its successes along the way and has the determination and foresight to develop its valuable growth portfolio.

Shareholders too have celebrated the strength of the Company through a consistent dividend. It is based on a disciplined dividend policy that has delivered around 50% of net profit after tax to shareholders in every year, except the year of the global financial crisis.

These strengths, coupled with our capability to add and create value, have furthered our vision to become the number one independent coal company.

## SOCIAL RESPONSIBILITY

As a Board we have been elected to grow shareholder value but we understand we cannot do this if we transgress against our 'licence to operate'.

This licence is more than a statutory obligation; it is a moral one, something we owe to our community and country. We must at all times be focused on the sustainability of our operations. This includes minimising our environmental impact, maintaining a very strong culture of workplace safety, ensuring the welfare of our workforce and the communities of which we are a part, while building good relations with all stakeholders, traditional owners and neighbouring landowners.

Despite our best intentions, we don't always get it perfectly right. However, our genuine commitment to talking straight is a powerful platform on which to achieve our aspirations of operational excellence and sustainable growth.

### THE COST OF CARBON

I have been outspoken during the year on the proposed carbon pricing scheme. At the same time, the Company has engaged diligently and transparently with the Federal Government on the issue of emissions reduction.

Committed to achieving shareholder value, I have called on the Federal Government to ensure that any policy that seeks to sign industry, on behalf of the nation, to what is effectively a global cause, should also ensure that industry is not unfairly penalised by moving unilaterally.

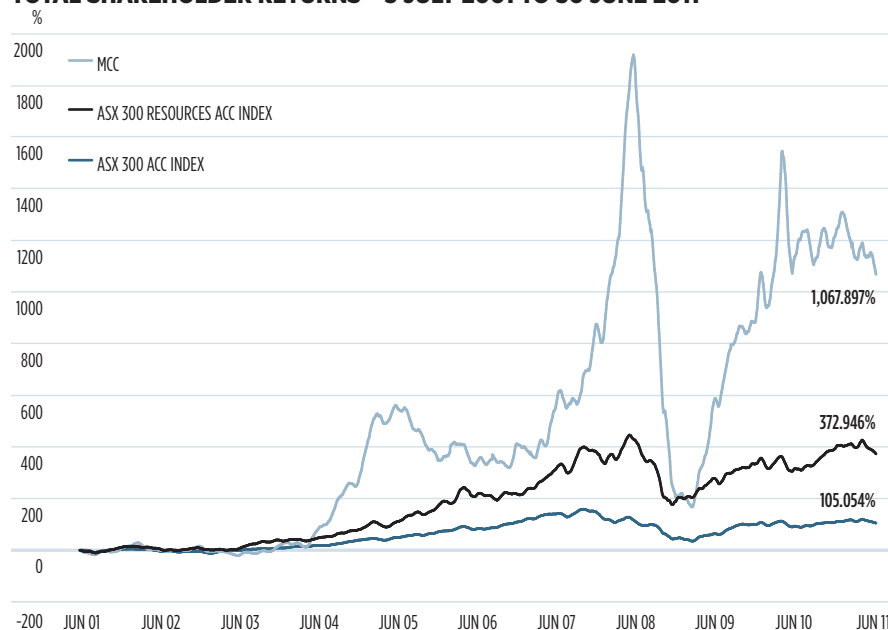
A sensitively designed and properly constructed carbon price may be a logical and effective approach to achieving the goal of reducing emissions, but poor timing, a political agenda, and an absence of global resolve could ruin the policy intent and the effectiveness of the scheme.

### FUTURE VALUE

I believe Macarthur will continue to reward shareholders, as it has for those who accepted the promise made by Macarthur Coal in 2001, that great resources could be transformed into a profitable operation.

The Middlemount Mine Project is about to become fully operational, plans are in place for the development of our Codrilla Mine Project and we have an impressive catalogue of potential future projects.

### TOTAL SHAREHOLDER RETURNS – 5 JULY 2001 TO 30 JUNE 2011



**Top performer for the decade:** Shareholders who invested on 5 July 2001 would have received a total shareholder return of 1,068% on 30 June 2011, ranking Macarthur Coal second in the ASX 300 for the time period. Source: Orient Capital.

In addition to our substantial resource portfolio, our operational capability, valuable port and rail certainty and a formidable success culture, we know we can deliver enhanced performance and sustainable growth.

This bright future makes it therefore inevitable there would be continued interest from the market to acquire the Company. This is the price of success.

On 1 August 2011, Peabody Energy Corporation and ArcelorMittal S.A. notified Macarthur Coal of its intention to make a takeover offer for all of the shares of the Company for \$15.50, subject to a number of conditions. We will consider this offer and in formulating our recommendation to shareholders, will focus on Macarthur's status as an Australian success story, its significant production growth profile and its status as a leading supplier of LV PCI coal in the global seaborne coal market, whose strategic value is further underpinned by the strong long-term demand outlook.

I take this opportunity to express my gratitude to Macarthur Coal's people – everyone from my Board colleagues to our dedicated workers at site. By continuing to respond in times of great change, Macarthur's people continue to create value for our shareholders.

I would like to thank our Chief Executive Officer and Managing Director Nicole Hollows for her ongoing leadership. She has guided a management team that has overseen the steady strategic transformation that will underpin our growth for the next decade and beyond.

**KEITH DELACY**  
Chairman

# MANAGING DIRECTOR'S REPORT



If there is one quality that could describe Macarthur Coal during its 10 year history it is “resilience”. It is this resilience that has been fundamental to the Company’s ability to deliver value to our shareholders throughout the past 10 years, and especially during the past 12 months.

In the 2011 financial year, Macarthur Coal’s net profit after tax (NPAT) was \$241.4 million, assisted by the sell-down of interests in Codrilla and Middlemount. This result was delivered in a year that challenged all of us, with record rainfall impacting production at both Coppabella and Moorvale, coupled with the flow-on effects of five months of *force majeure* declared under customer contracts. Despite the environmental and market conditions, it was our people who rallied to ensure we met our revised coal sales target, giving shareholders confidence in our ability to perform under pressure.

## STRATEGIC AND SUSTAINABLE GROWTH

In 2009, in the face of a global economic downturn, Macarthur Coal reaffirmed its strategic goal of doubling its 2009 production results in five years.

Macarthur Coal’s continuing focus on its strategic objectives of operational excellence and sustainable growth has not only underpinned our profit result but has also moved us towards reaching our goal of producing coal sales of 9.2Mtpa by 2014.

The Middlemount Mine Project is in its final stages of development and shipped bulk coal samples to customers in June 2011. Macarthur Coal also selected the Codrilla coal deposit as its fourth mine project after evaluating a number of development opportunities in its portfolio. The value of Codrilla was confirmed during the sell-down of Macarthur’s interests in the project to the Coppabella and Moorvale Joint Venture, with a valuation equivalent to \$640 million on a 100% basis.

Middlemount Mine is expected to commence raiing coal through a purpose-built rail load-out in December 2011. The Codrilla Mine is expected to achieve nameplate capacity by July 2014 producing 2.3Mtpa of LV PCI coal product for Macarthur for export through existing contracted port capacity at Dalrymple Bay Coal Terminal.

Throughout the year, as a result of the Company’s \$13.5 million investment in exploration, Macarthur positioned itself to announce increases to coal resources at Middlemount, West Rolleston, Vermont East, Willunga and Yeerun.

## INFRASTRUCTURE SECURED

Infrastructure has been an important focus of the interaction between our industry and government over the past 12 months. Infrastructure challenges in the coal supply chain continued in the 2011 financial year – a reality that will see responsibility for port and rail infrastructure increasingly shift from the public sector to the private sector in the future.

In recognition of this shift, Macarthur Coal has focused on securing its own infrastructure requirements to support growth beyond 2014. In the 2011 financial year, the Company confirmed its expression of interest for capacity at the Wiggins Island Coal Export Terminal in anticipation of the final configuration of the port design and operation being settled early in 2012.

If Macarthur Coal succeeds in securing capacity at Wiggins Island, the Company will have port capacity at three coal terminals in Queensland - Dalrymple Bay, Abbot Point and Wiggins Island.

## PREPARING FOR OUR CARBON FUTURE

During 2011 the Federal Government proposed the introduction of a carbon pricing regime. The regime will place a price of \$23 per tonne on carbon emissions from a coal company’s operations. During the year we have had engagement with the Government to discuss the hypothetical impact of a range of carbon prices on the industry’s competitiveness. We have clearly indicated

where and to what extent a carbon price would affect companies like Macarthur Coal, especially in combination with existing State royalties, the proposed Minerals Resource Rent Tax and underlying company tax.

Macarthur Coal's ultimate objective is to support a reduction in emissions globally, while at the same time maintaining a strong economy for Australia's future. Our aim has been to argue for a balanced approach that gives Macarthur and its shareholders certainty. Our own carbon strategy, including measurement and accounting, direct action to increase operational efficiency and reduce emissions, will aim to deliver that certainty to shareholders, regardless of the final legislation enacted by the Australian Parliament.

In the coming year we will continue to engage with the Government to achieve the best possible outcomes for our industry and to ensure Macarthur Coal is best placed to manage the transition to the new carbon pricing regime.

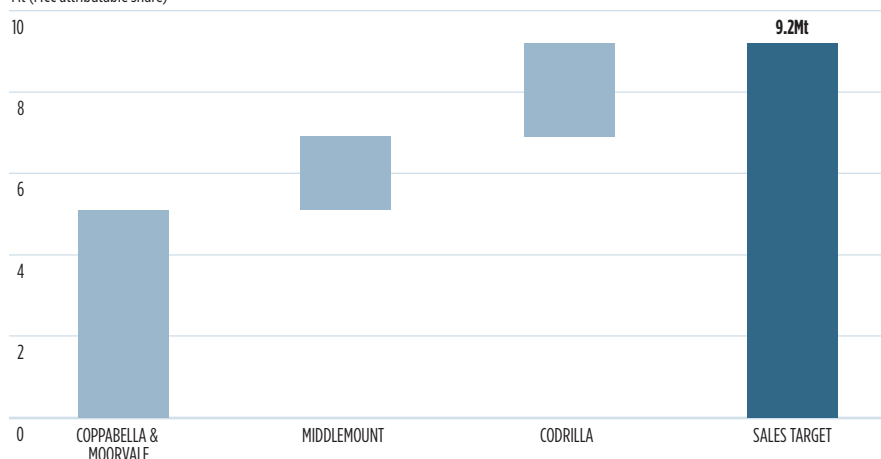
Macarthur's principal product - low volatile pulverised coal injection (LV PCI) coal actually reduces carbon emissions when used as a supplement to coking coal in steel making. The replacement of 1.3 tonnes of hard coking coal with 1 tonne of LV PCI in the steel making process not only increases blast furnace productivity and reduces costs, but internal research suggests this substitution may also result in 0.5 tonne reduction in CO<sub>2</sub>-e emissions.

### SAFETY FOCUS

The safety of our people comes first, which is why Macarthur's safety performance for the year was a disappointment to everyone at the Company. While the overall total recordable injury frequency rate (TRIFR) of 14.0 was an improvement on the 2010 TRIFR of 17.9, we recognise that we must work

### PROJECTED COAL SALES TARGET FOR FY2014

Mt (MCC attributable share)



Macarthur has the assets, operational capability, strong balance sheet and access to port capacity to meet its 9.2Mtpa sales target by 30 June 2014.

harder to improve our safety culture and, ultimately, our safety performance.

In April 2011, we reaffirmed our goal of Zero Harm with employees and contractors and explained that this will become our new benchmark as we work towards achieving zero recordable injuries.

This will be achieved with the delivery of improved safety resources, systems and governance, a staged implementation and consistent, measurable improvements year-on-year. The clear message within Macarthur Coal is: "If it's unsafe – stop, and don't start again until a safe way has been found to do the job."

### OUR PEOPLE

Macarthur Coal's people have shown resilience this year, overcoming the challenges, leading the way and delivering results. At Macarthur, we recognise the valuable contribution our people make to the Company's success and we invest in learning and development, coaching and mentoring and in their health and well-being. We pride ourselves in talking straight, working together and continuing to build a successful Macarthur. I would like to personally thank our people and our Board for again living up to our values, meeting the challenges head on and delivering value to our shareholders.

I believe that Macarthur has an optimistic future particularly given its:

- skilled and dedicated people
- sustainable resources of coal
- improving operational capability
- strong balance sheet for future growth
- access to port and rail infrastructure
- increasing confidence and competence around the Company's strategy.

Resilience has been a common theme for the past two years. The work we have done as a Company to position ourselves offers us the opportunity to begin the next stage of growth. The coming year will demonstrate Macarthur Coal's strategic capability.

I look forward to keeping you informed of our progress.

### NICOLE HOLLOWS

CEO and Managing Director

# CHIEF FINANCIAL OFFICER'S REPORT



Sales of metallurgical coal under our existing long-term contracts to all customers remain strong and we expect to see continued demand growth in the 2012 financial year.

## STRONG BALANCE SHEET

Operating cashflow for the year of \$117.8 million combined with the equity raising of \$493.9 million in August and October 2010 has contributed to a \$415.2 million cash balance at the end of the financial year. This cash combined with the successfully negotiated bank facilities of \$330 million positions Macarthur to fully fund the development of the Codrilla Mine Project required to achieve its 9.2Mtpa sales target in 2014. In addition to the development of new mines, Macarthur is also continuing to explore and evaluate our existing portfolio of coal tenements with an expected investment of around \$60 million in the 2012 financial year. Key financial and operating data is detailed in the table below:

## ACQUISITIONS AND DIVESTMENTS

During the year Macarthur completed a number of acquisition and divestment activities. In August 2010, Macarthur successfully completed an institutional placement of new ordinary shares to raise approximately \$438.7 million. It was well over-subscribed

## RECORD NET PROFIT

Macarthur Coal has built on a decade of strong performance this financial year to overcome significant challenges posed by severe weather events and set a new record for net profit after tax (NPAT) of \$241.4 million, \$116.3 million higher than the 2010 result of \$125.1 million.

The sell-down of our interests in the Middlemount and Codrilla projects enhanced profit levels, which were impacted by the operational difficulties suffered during the year, resulting from record rainfall. This is most apparent in underlying profit from our mining operations, where Macarthur recorded \$142.4 million, just marginally higher than our full year underlying result in the 2010 financial year of \$139.1 million, despite record sales prices.

Macarthur declared *force majeure* under its sales contracts on 3 December 2010 as the continued rains impeded sustained production capacity. Mining operations at both Coppabella and Moorvale were significantly disrupted until 28 April 2011 when *force majeure* was lifted.

## RECORD PRICES FOR PCI

The impact of the lower production and sales levels during this period was partly offset by the record prices that we received for our product in the second half of the year. The

benchmark price for PCI reached US\$275 per tonne during the June quarter. These prices were a direct result of the impact of the wet weather on metallurgical coal supply from the Bowen Basin and the growth in demand from the iron and steel industry.

The global growth in demand for steel and the resultant increased demand for raw material inputs resulted in a full year average realisation of US\$167.85 per tonne for our product – the highest annualised rate achieved to date.

FIVE YEAR PERFORMANCE		2011	2010	VARIANCE %	2009	2008	2007
Coal sold (including purchased coal and share of Middlemount sales)	'000 tonnes	3,910	5,319*	(26%)	4,613	3,941	4,225
Coal sold from production (excluding share of Middlemount sales)	'000 tonnes	3,845	5,170	(26%)	4,428	3,678	3,795
Revenue from coal sales	\$M	687.3	670.5	3%	695.4	400.2	362.8
EBITDA	\$M	345.4	213.1	62%	281.4	136.2	98.1
EBIT	\$M	314.7	181.8	73%	260.2	117.7	82.0
Net profit after tax (NPAT)	\$M	241.4	125.1	93%	168.6	72.7	66.5
Earnings per share	cents	82.8	49.3	68%	79.3	36.6	35.5
Dividends per share	cents	40.0	25.0	60%	13.0	17.0	18.0
Operating cashflow	\$M	117.8	177.1	(39%)	214.4	(35.9)	30.1
Net debt/(cash)	\$M	(329.8)	(248.8)	33%	(159.7)	26.0	(79.2)
Gearing (net debt/shareholders' equity)	%	(18.4)	(22.0)	(16%)	(15.8)	3.8	(19.1)
Net interest cover (EBITDA/interest paid)	times	49.6	25.0	99%	41.0	44.7	60.5
Return on Invested Capital	%	12.4	10.7	16%	16.2	10.0	13.3
Net Tangible Assets per share	\$/share	5.9	4.34	36%	4.03	3.13	2.21

\* 2010 figure has been adjusted to include the Group's share of Middlemount production.



indicating strong support for the Company's growth strategy. Proceeds were used to fund a \$360 million loan to MCG Coal Holdings Pty Ltd, the exploration of and a bankable feasibility study for a mineral development lease (MDL 162), and as a source of capital for Macarthur's exploration and evaluation program. The loan to MCG Coal Holdings Pty Ltd was based on an entitlement for Macarthur to convert the loan into a 90% interest in MCG Coal Holdings Pty Ltd, the indirect holder of MDL 162. To date Macarthur has been unable to convert the loan to equity in MCG Coal Holdings Pty Ltd, and has commenced action in the Supreme Court of Queensland requiring MCG Coal Holdings Pty Ltd and the shareholders in MCG Coal Holdings Pty Ltd to complete the conversion. Macarthur is confident of being able to convert the loan to a 90% interest in MCG Coal Holdings Pty Ltd and maintain its interest to develop MDL 162.

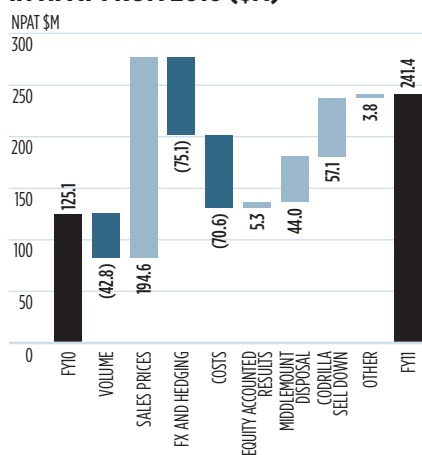
MDL162 is in the southern Bowen Basin near Blackwater and initial results indicate the probable presence of a medium volatile coking coal as well as low volatile PCI coal. A formal application has been lodged to secure port capacity for Stage 2 of the Wiggins Island Coal Export Terminal, scheduled for completion in 2015.

In December 2010 Macarthur completed the selldown of a 22% interest in Middlemount Coal Pty Ltd to Gloucester Coal Ltd under a pre-existing option agreement. The result of this transaction was a net profit after tax of \$44.0 million and the receipt of \$97.6 million in cash. Following completion of this transaction Macarthur held a 50.0003% interest in Middlemount Coal.

On 30 June 2011, Macarthur announced the completion of the selldown of its interests in the Codrilla project to the Coppabella and Moorvale Joint Venture. This generated a net profit after tax of \$57.1 million and \$18.3 million in cash on completion. The remaining proceeds of the selldown of \$73.1 million are to be received on a deferred settlement basis over an approximate two-year period based on the achievement of project milestones.

The graph (above right) depicts the principal drivers of the NPAT growth from 2010.

### MAIN DRIVERS OF INCREASE IN NPAT FROM 2010 (\$M)



USD sales prices had a favourable impact on NPAT in FY2011, along with the profits recognised from the selldowns of Middlemount and Codrilla. Increases were partially offset by the impact of the high AUD and higher costs than in the previous year.

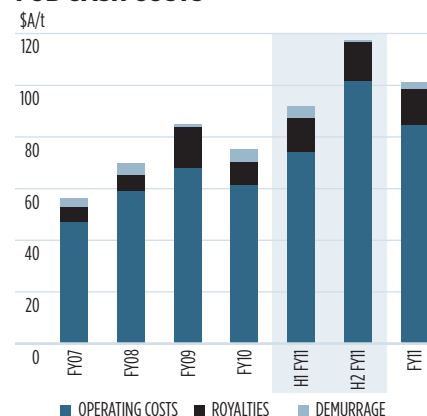
### MANAGING COST PRESSURES

Cost performance was significantly influenced by the weather-related disruption to production and sales during the year. As detailed in the graph (above far right) the cost per tonne of coal shipped, on a free on board (FOB) basis, increased from \$75 per tonne in the prior year to \$101 per tonne in 2011. This increase reflects a number of factors including higher royalties on a higher realised sales price, fixed take or pay commitments for rail and port, site-based fixed costs allocated over lower produced tonnes and increased cost of labour, tyres and explosives inputs.

We continue to work towards a position of greater certainty around the Federal Government's proposed carbon price and Minerals Resource Rent Tax. Based on our current understanding of the frameworks around these potential taxes, Macarthur will be exposed to an additional tax burden from both of these initiatives. The Company has estimated a carbon price impact of approximately \$1.40 per tonne of coal.

In the coming year Macarthur, like most other Australian resource companies, faces higher input costs, principally in the areas of energy (diesel fuel and electricity), explosives, tyres and some contractor services. However,

### MACARTHUR COAL FOB CASH COSTS



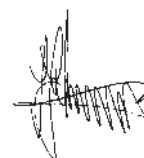
Increases in operating costs per tonne were predominantly due to the impact of the wet weather.

we are focused on securing productivity improvements and strengthening our procurement and contracting activities to help offset these cost pressures.

### FINANCIAL SUCCESS

There are many metrics that demonstrate Macarthur's financial success, including the fact that in the past 10 years we have returned \$371 million in dividends to our shareholders and paid federal taxes and State royalties of \$545 million. The key to that success has been a balanced view of the risks associated with operating in a volatile environment coupled with an appropriate financial management strategy.

As we enter our second decade Macarthur is financially strong and will continue to recover from the impact of the five-month production disruption of 2010-2011 secure in the knowledge that we will continue to grow the business and provide strong returns to our shareholders and the communities in which we operate.



**GRAHAM YERBURY**  
Chief Financial Officer

# FIVE YEAR PERFORMANCE HISTORY

		2011	2010	2009	2008	2007
<b>Profit and loss</b>						
Sales revenue	\$000's	687,325	670,502	695,417	400,231	362,796
EBITDA	\$000's	345,404	213,054	281,434	136,222	98,135
Depreciation	\$000's	10,433	7,754	8,254	9,765	8,323
Amortisation	\$000's	20,278	23,525	13,006	8,785	7,839
EBIT	\$000's	314,693	181,775	260,174	117,672	81,973
Financial income	\$000's	28,433	14,174	3,272	7,784	17,028
Financial expenses	\$000's	11,653	12,169	8,912	5,825	4,295
Equity accounted profits/(losses)	\$000's	(5,671)	(10,934)	(12,338)	(3,666)	-
Income tax expense	\$000's	84,412	47,782	73,638	43,281	28,161
NPAT	\$000's	241,390	125,064	168,558	72,684	66,545
<b>Balance sheet</b>						
Current assets	\$000's	1,413,977	779,842	676,595	371,269	357,908
Non-current assets	\$000's	721,469	787,229	751,409	665,997	254,741
Total assets	\$000's	2,135,446	1,567,071	1,428,004	1,037,266	612,648
Current liabilities	\$000's	155,529	211,801	180,481	153,228	98,090
Non-current liabilities	\$000's	186,433	226,675	238,458	193,562	99,748
Total liabilities	\$000's	341,962	438,476	418,939	346,790	197,838
Interest bearing debt	\$000's	85,312	99,422	107,833	48,515	17,328
Net debt	\$000's	(329,849)	(248,794)	(159,743)	26,037	(79,237)
Net assets	\$000's	1,793,484	1,128,595	1,009,065	690,476	414,810
Shareholders' equity	\$000's	1,793,484	1,128,595	1,009,065	690,476	414,810
<b>Cash flow</b>						
Net receipts/(payments) in the course of operations	\$000's	196,132	221,314	212,361	(15,656)	78,311
Other receipts/(payments) from operating activities	\$000's	(78,363)	(44,186)	2,044	(20,212)	(48,181)
Cash flows from operating activities	\$000's	117,769	177,128	214,405	(35,868)	30,131
Payments for exploration, evaluation and development	\$000's	(12,517)	(10,310)	(14,769)	(8,522)	(8,421)
Payments for property, plant and equipment	\$000's	(11,652)	(9,824)	(25,021)	(16,348)	(19,829)
Other receipts/(payments) from investing activities	\$000's	(419,685)	(60,403)	(46,042)	(6,736)	(12,570)
Cash flows from investing activities	\$000's	(443,854)	(80,537)	(85,832)	(31,606)	(40,820)
Proceeds from issue of shares	\$000's	487,402	61,997	184,583	0	0
Net increase/(repayment) of borrowings	\$000's	0	0	(21,842)	19,762	(1,139)
Dividends paid	\$000's	(68,496)	(53,410)	(29,702)	(19,481)	(54,340)
Other receipts/(payments) from financing activities	\$000's	(25,876)	(24,538)	(16,514)	(6,894)	(5,869)
Cash flows from financing activities	\$000's	393,030	(15,951)	116,525	(6,613)	(61,348)
<b>Shares</b>						
Number of shares on issue at year end	000's	302,092	254,333	243,980	212,157	187,380
Closing share price	\$/share	10.95	12.12	6.60	16.87	6.77
Earnings per share basic	cents	82.8	49.3	79.3	36.6	35.5
Earnings per share diluted	cents	82.7	49.3	79.3	36.6	35.5
Net tangible assets per share	\$/share	5.88	4.34	4.03	3.13	2.21
Dividends per share	cents	40.00	25.00	13.00	17.00	18.00
Dividend payout ratio	%	49.8	50.8	19.6	49.6	50.7
Market capitalisation	\$000's	3,307,911	3,082,516	1,610,268	3,579,089	1,268,565
<b>Ratios</b>						
Return on average shareholders equity	%	16.5	11.7	19.8	13.2	16.5
Return on invested capital	%	12.4	10.7	16.2	10.0	13.3
Return on assets	%	11.3	8.0	11.8	7.0	10.9
Net interest cover (EBITDA/interest paid)	times	49.6	25.0	41.0	44.7	60.5
Net debt to equity	%	(18.4)	(22.0)	(15.8)	3.8	(19.1)
<b>Other</b>						
Average coal price	A\$/tonne	178.75	129.69	157.07	109.13	95.61
Cost excluding EBITDA/tonne sold	A\$/tonne	88.92	88.48	93.50	71.98	69.75
EBITDA/tonne sold	A\$/tonne	89.83	41.21	63.56	37.14	25.86
NPAT/tonne sold	A\$/tonne	62.78	24.19	38.07	19.82	17.54
<b>Shipments - excluding share of Middlemount sales and purchased coal</b>						
Coppabella - 100%	tonnes 000's	2,747	3,886	3,106	2,816	3,749
Moorvale - 100%	tonnes 000's	2,498	3,168	2,934	2,202	1,428
Macarthur Coal's attributable tonnage	tonnes 000's	3,845	5,170	4,428	3,678	3,795
<b>Production - attributable to Macarthur Coal</b>						
<b>Coppabella</b>						
Overburden removed	bcm 000's	28,563	27,690	21,958	27,409	34,423
Run of mine production	tonnes 000's	2,285	3,468	2,899	2,169	3,715
CHPP feed	tonnes 000's	2,701	3,349	3,012	2,528	3,236
Average CHPP plant yield	%	76	80	81	79	79
Saleable coal production	tonnes 000's	2,059	2,695	2,441	1,989	2,559
<b>Moorvale</b>						
Overburden removed	bcm 000's	15,574	18,677	16,237	13,425	11,173
Run of mine production	tonnes 000's	2,391	2,912	2,887	1,938	1,684
CHPP feed	tonnes 000's	2,417	3,030	2,716	2,035	1,621
Average CHPP plant yield	%	73	77	82	76	66
Saleable coal production	tonnes 000's	1,755	2,334	2,229	1,543	1,075
<b>Total</b>						
Overburden removed	bcm 000's	44,136	46,367	38,195	40,834	45,596
Run of mine production	tonnes 000's	4,676	6,380	5,787	4,107	5,399
CHPP feed	tonnes 000's	5,119	6,379	5,728	4,563	4,857
Saleable coal production	tonnes 000's	3,814	5,030	4,669	3,531	3,635

# OPERATIONS



# OPERATIONAL SUMMARY

In the 2011 financial year Macarthur Coal and its people demonstrated their trademark resilience in the face of the extended periods of wet weather and the associated impacts on operations. As at 30 June, Macarthur's mines were recovering well after five months of reduced production and planned exploration activities were ramping up to compensate for lost time in the field. Despite the challenges, the Company remains on track to achieve its strategic objective of sustainable coal sales of 9.2Mtpa by 2014.

## SAFETY (PAGES 18 TO 19)

Macarthur puts people first, which is why the Board and leadership group has reinforced safety as its top priority after recognising the need to improve performance in this area. To support a reduction in recordable injuries, Macarthur set a target of Zero Harm, which means it will aim to reduce recordable injuries, steadily and consistently, to reach zero.

Macarthur achieved an overall Total Recordable Injury Frequency Rate (TRIFR) of 14.0, an improvement on the 2010 TRIFR of 17.9.

Coppabella Mine recorded a disappointing TRIFR of 18.4, while Moorvale Mine and the Middlemount Mine Project made vast improvements with TRIFRs of 10.7 and 3.9 respectively.

Successfully reaching the Zero Harm target will involve a staged implementation of various safety initiatives to be rolled out progressively, commencing in the 2012 financial year.

## COPPABELLA AND MOORVALE MINES (PAGES 20 TO 23)

Achieving operational excellence was the key objective at Coppabella and Moorvale mines as they faced the challenge of 2011's unseasonal wet weather.

During the 2011 financial year, operations at Coppabella Mine lost 60 days<sup>1</sup> due to the weather and an historic high of 1,621mm of rain fell in the pits' catchment area, while Moorvale lost 45 days<sup>1</sup> due to a record 1,233mm of rain.

Coppabella Mine produced 2.1Mt of product coal and Moorvale produced 1.8Mt. While these figures aligned with revised targets set in May 2011, they were significantly down on FY2010 volumes.

## RAIL AND PORT (PAGES 24 TO 25)

Severe weather resulted in damage to rail infrastructure throughout central and southern Queensland regions, however close collaboration between industry and service providers allowed planned maintenance and asset replacement activities to be brought forward, maximising future capacity.

The Goonyella rail system that links Coppabella, Moorvale and other mines with export port facilities near Mackay fared well in comparison with other transport networks.

In the 2011 financial year Macarthur obtained the contracted port capacity to meet its sustainable growth objectives, confirming its long-term capacity at 9.4Mtpa. Macarthur also allocated some of its capacity to the Coppabella and Moorvale Joint Venture to support the development of the Codrilla Mine Project.

Abbot Point Coal Terminal (APCT) capacity is due to come on-line in the 2012 financial year and will service the Middlemount Mine and provide the Company with transport diversification across two ports.

## COAL SALES (PAGES 26 TO 27)

Demand and prices for metallurgical coal were stronger than expected in the 2011 financial year, driven primarily by increasing steel production in China and South Korea, the recovery of traditional steel markets, and supply disruptions caused by record rainfall and flooding across Queensland coalfields.

This combination of market conditions resulted in historically high price settlements for LV PCI coal in the June 2011 quarter.

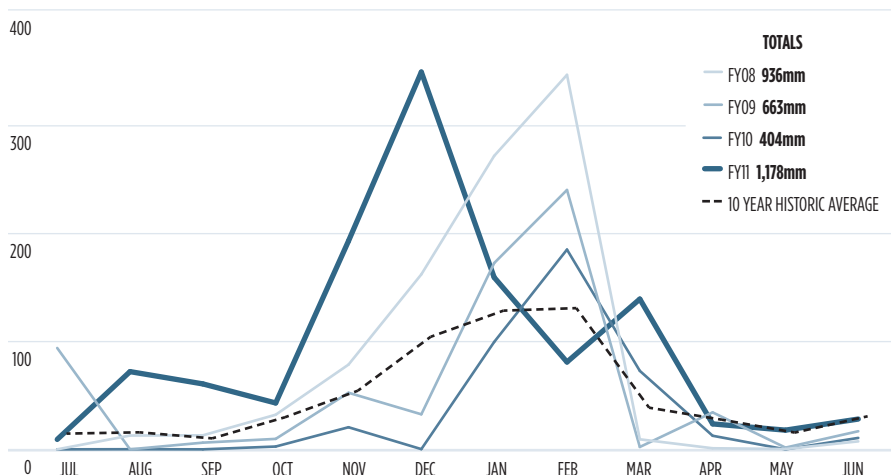
Even though the unseasonal wet weather prompted a declaration of *force majeure* under customer contracts in December 2010, Macarthur recorded attributable coal sales of 3.9Mt for the 2011 financial year, within its revised target range of between 3.8Mt-4.0Mt but below the original target of 5Mt product coal.

The long-term projections for increased demand give Macarthur confidence that it has the operating mines and projects in development to meet the market's requirements.

## ENVIRONMENT (PAGES 46 TO 47)

Macarthur's investment in water infrastructure since the 2008 floods and prior to the 2010-2011 wet season paid dividends when Queensland coalfields were impacted by extreme weather events.

## MORANBAH AVERAGE RAINFALL (MM)



**Record rainfall of 1,178mm in FY2011:** Moranbah is the closest weather recording station to both Coppabella and Moorvale mines and this demonstrates the past four years and 10-year historical average.

<sup>1</sup> Based on 24-hour days.

“Our people must be congratulated for their fortitude, even when rain days outnumbered dry during the wet season, they maintained a strong morale on site.”

Allan Fidock, EGM Operations.

ASSETS				INFRASTRUCTURE		COAL MARKET	
Exploration/Concept	Under evaluation	Development	Operating mines	Rail	Port	Products	Customers <sup>3</sup>
Capricorn	Olive Downs North	Codrilla	Coppabella	Above Rail Pacific National	Dalrymple Bay Coal Terminal	PCI 86%	Asia 68%
Coppabella Underground	Monto	Middlemount	Moorvale	Below Rail QR Network	Abbot Point Coal Terminal	Thermal 9%	Europe 19%
Olive Downs South	Moorvale Underground				Wiggins Island Coal Export Terminal <sup>1</sup>	Coking 5%	Brazil 12%
Vermont East	Moorvale West				Abbot Point (T4-T7 Expansion) and/or Dudgeon Point <sup>2</sup>		India 1%
West/North Burton	Willunga						
West Rolleston							
West Walker							
Yeerun							

**Capability and resources to deliver growth:** Macarthur Coal has the operational trifecta – unique and prospective coal assets, infrastructure capacity and a growth market that will deliver long-term value to shareholders.

- 1 Applications for Stage 2 of WICET submitted.
- 2 Expressions of interest lodged for additional port capacity.
- 3 Based on volume.

Record rainfall in the pit catchment areas at both operating sites did result in working pits being affected by in-pit water from rainfall, but significant diversion works limited pit flooding.

Coppabella Mine reported three non-compliant water releases and Moorvale two non-compliant water releases to the Department of Environment and Resource Management (DERM). Taking into account the volume, quality and extreme weather events, no penalty was recorded.

**SUSTAINABILITY**

Macarthur recognises that meeting the demands of shareholders, customers, employees and the wider Australian community for environmental responsibility is essential to maintaining a ‘licence to operate’.

Macarthur’s **Sustainability Statement of Intent** focuses on generating value for shareholders while targeting five key sustainability objectives:

- constant improvement in workforce safety performance
- embedding sustainable practices in all aspects of the business through the development of people and culture
- limiting the impact on the natural environment (Pages 46 to 47)
- managing carbon emissions (Pages 48 to 50)
- actively contributing to local communities (Pages 56 to 58).

## Partnerships and progress: Macarthur’s first 10 years

Over the last 10 years, the strength of Macarthur Coal’s relationships with its joint venture participants, key contractors and suppliers has been integral to the Company’s success.

The participants in the Coppabella and Moorvale Joint Venture - CITIC Group, Marubeni Corporation, Sojitz Corporation, JFE Shoji Trade Corporation and Nippon Steel Corporation have supported Macarthur’s growth plans since the Company began. Together they have overseen the successful operation of the Coppabella and Moorvale mines, and now embark on its third mine project at Codrilla.

Macarthur has a long-term partnership with CITIC Group, and shared ownership through joint ventures of most of the Company’s prospective tenements, which have seen steady increases in resources since their acquisition.

In August 2010, Macarthur Coal and Leighton Contractors celebrated their 10-year anniversary. The first mining contract between Macarthur and Leightons began in January 2000, with Leightons operating on a contract basis at Coppabella Mine’s Johnson Pit. Leighton moved from Coppabella to Moorvale Mine in late 2002.

Since then, the two companies have successfully worked together through economic downturns, growth periods, cost pressures and weather events - always ensuring the best outcomes for both companies and their people.

Sedgman has also been integral to Macarthur Coal’s success and has operated the Coal Processing and Handling Plants (CHPPs) at Coppabella and Moorvale since designing and building the plants in 1998 and late 2002 respectively.

Chemicals, explosives and mining sector supplies group Orica has also worked with Macarthur since 2004.

As Macarthur embarks on its second decade as a listed company, the longstanding partnerships with its resource sector peers will be crucial to Macarthur achieving its goals for the future.

# RENEWED FOCUS ON SAFETY

Macarthur Coal has reinforced safety as its top priority after recognising that its performance in 2011 wasn't keeping up with industry benchmarks.

To support the reduction in recordable injuries Macarthur Coal has taken the decision to launch a target of Zero Harm, which means the Company aims to reduce the number of recordable injuries steadily and consistently to zero.

This new benchmark is based on Macarthur's commitment to its people to provide them with the safest possible work environment and will be achieved with the appointment of increased safety resources, and improved safety systems and governance.

The April announcement to employees and contractors of the Zero Harm target has been followed by the staged implementation of a comprehensive plan to improve the Company's safety performance. This plan will be rolled out progressively during the 2012 financial year and beyond.

Safety performance directly affects production, and safety improvements will underpin Macarthur's strategic objective to sustainably achieve coal sales of 9.2Mtpa by 2014.

In all his discussions with employees, Executive General Manager – Operations Allan Fidock is clear when he says "Safety first and production will follow."

## 2011 PERFORMANCE

The primary measure for Macarthur's safety performance is the Total Recordable Injury Frequency Rate (TRIFR), representing the number of medical, disabling and lost time injuries recorded for every million hours worked. The TRIFR is the mining sector's most recognised safety measure and gives a clear view of the safety performance against industry benchmarks and brings reporting in line with best practice.

Macarthur achieved an overall TRIFR of 14.0, below its internal target of 20.2, set on 1 July 2010. The industry benchmark has since been revised and is currently 13.4, reinforcing the Company's decision to introduce tougher targets.



**Talking safety outside the Maintenance Workshop** – Coppabella's Leading Hand Brian McCann ensures all safety procedures are followed in the workshop and reports back to the Supervisor.

Macarthur Coal remains fatality free and has consistently made improvements to safety culture and performance. However, going forward the Company will no longer be guided by industry targets. Instead, as part of the long-term Zero Harm target, Macarthur Coal will independently set its own TRIFR targets each year to progressively reduce recordable injuries, in a consistent and realistic manner, to work towards zero across all of its operations.

Macarthur increased its activities during the wet season in regards to safety awareness and investigations, but the challenge remains to recognise the hazards and reduce the number of incidents.

Key safety initiatives in the 2011 financial year included:

- SafeSpine Program – to promote spine health and reduce soft tissue injuries
- Biggest Winner Program – to improve the health and fitness of site employees
- Roll the Dice Program – to raise awareness about risk taking and the impacts on the individual's safety and their colleagues
- Speeding Awareness Program – to improve the safety of roads on and off site, for employees travelling at work, and to and from work
- Refresher sessions – Senior Site Executive (SSE) provided training to Crew Supervisors on safety operational procedures

- Company-wide Risk Profiling – to engage with senior executives in better understanding the risks of the business and the actions required to mitigate those risks.

## COPPABELLA MINE

Coppabella Mine recorded a TRIFR of 18.4 compared to its internal target of 17.1. This result represents an increase on 2010 TRIFR of 16.4. In the 2012 financial year, in addition to a Company-wide focus on safety, Coppabella will pilot a behavioural-based safety training program for its employees and further develop the mine's safety risk management processes.

## MOORVALE MINE

Safety performance at the Moorvale Mine improved significantly in 2011 with a TRIFR of 10.7, compared to the 2010 figure of 19.2. Moorvale led the way on safety at Macarthur, with a result better than the revised industry benchmark of 13.4. In the 2011 financial year, Moorvale made progressive improvements to its safety management system and in early 2012 will recruit a Health and Safety Superintendent in addition to the mine's existing Safety Support Officer.

## MIDDLEMOUNT MINE PROJECT

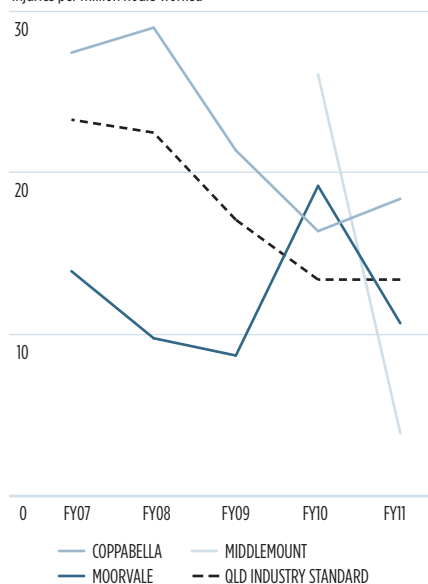
The Middlemount Mine Project's TRIFR was 3.9, representing a transformational improvement on last year's TRIFR of 26.1. Plans are in place to continue to manage Middlemount's safety risk as it moves from construction and development phase into a fully operational mine.

“The safety of our people comes first.”

Nicole Hollows, CEO and Managing Director.

## TOTAL RECORDABLE INJURY FREQUENCY RATES

Injuries per million hours worked



Macarthur Coal achieved an overall TRIFR of 14.0, with significant improvements at the Moorvale Mine and Middlemount Mine Project.

## TARGETING ZERO HARM

To achieve Zero Harm, Macarthur must realise steady and consistent reductions in the number of recordable injuries at all its sites each and every year.

Reaching the target of Zero Harm will be challenging. In response the Company has set short term and medium term milestones to progressively and realistically improve results, year-on-year.

In the 2012 financial year Macarthur Coal will target a TRIFR of 7.0, which equates to a 50% improvement on its 2011 safety performance.

The Company has identified four major strategies to improve its safety performance and these will be rolled out progressively from the 2012 financial year.

1. Safety Risk Management Program
2. Safety Management Systems Program
3. Safety Audit and Governance Program
4. Safety Leadership and Culture Program

Macarthur Coal has increased safety resources by engaging a General Manager – Health, Safety and Environment, a Safety Systems Manager and a Senior Health and Safety Advisor.

## Live and work safely

Providing a safe and healthy working environment for employees is central to the Company’s safety performance. Macarthur Coal provides resources, training, equipment and financial support to encourage its employees to lead a healthy lifestyle at work and at home.

In January 2011, the Healthy Lifestyle Coordinators at the Coppabella Mine launched the Biggest Winner Program, in which employees committed to a 15-week challenge to improve their personal health and fitness.

Participants were given a full health assessment, nutritional advice and tailored fitness programs, making use of the on-site gym, pool, squash facilities and fitness classes at Terowie Village, Macarthur’s accommodation facility near the Moorvale Mine.

By May 2011, 110 of Macarthur’s ‘biggest winners’ had lost a collective 180 kilograms and 354 centimetres from their waists. Participants at the Coppabella Mine also reported increased energy

levels and improved sleep patterns.

The program is one example of an innovative approach Macarthur has taken to supporting staff to improve their health and fitness.

All permanent employees are provided with a Healthy Bodies Subsidy of \$1,500 per annum to cover gym memberships and other endorsed activities. In FY2011, 248 employees took advantage of this subsidy with Macarthur investing nearly \$195,000 in its employees’ health and wellbeing.

The Company also recorded an increase in participation across a range of health and wellness initiatives, including the SafeSpine Program.

During the 2011 financial year, 41 employees successfully completed SafeSpine leadership training. They now lead daily SafeSpine stretches before each shift at the Coppabella Mine, specifically designed to help safeguard employees from soft tissue injuries.

“Put your left foot in” – Healthy Lifestyle Coordinator Kate Sloan shows a group from B Crew Production at Coppabella Mine how to get the most from their daily pre-start stretches.



# COPPABELLA MINE

Queensland’s Bowen Basin endured another record breaking wet season in 2010-2011, causing disruptions and delays to production at the Coppabella Mine for much of the financial year.

Limited run of mine (ROM) coal stocks were available prior to the early onset of the wet season in August and the rains didn’t ease until April. Subsequently, *force majeure* was invoked under customer contracts from 3 December 2010 to 28 April 2011.

During the 2011 financial year, an historic high of 1,621mm of rain fell in Coppabella’s pit catchment area in comparison to 663mm of rain in the 2010 financial year. See the rainfall chart on page 16. Operations lost 60 (24-hour) days due to the weather delays.

**Coppabella grader hard at work** – Maintaining road conditions is key to improving safety, productivity and tyre life. Recent wet weather required an increased focus on road maintenance.



Two tropical cyclones, Anthony and Yasi, caused negligible damage to site but operations lost time as people were encouraged to return home to their families and were delayed getting back to site due to road closures.

The water management capital works completed in the previous 12 months mitigated the impact of the heavy rains, however, the cumulative effect of consistently above average rainfall each month meant the two main working pits, Johnson Pit and South Pit, were affected by in-pit water.

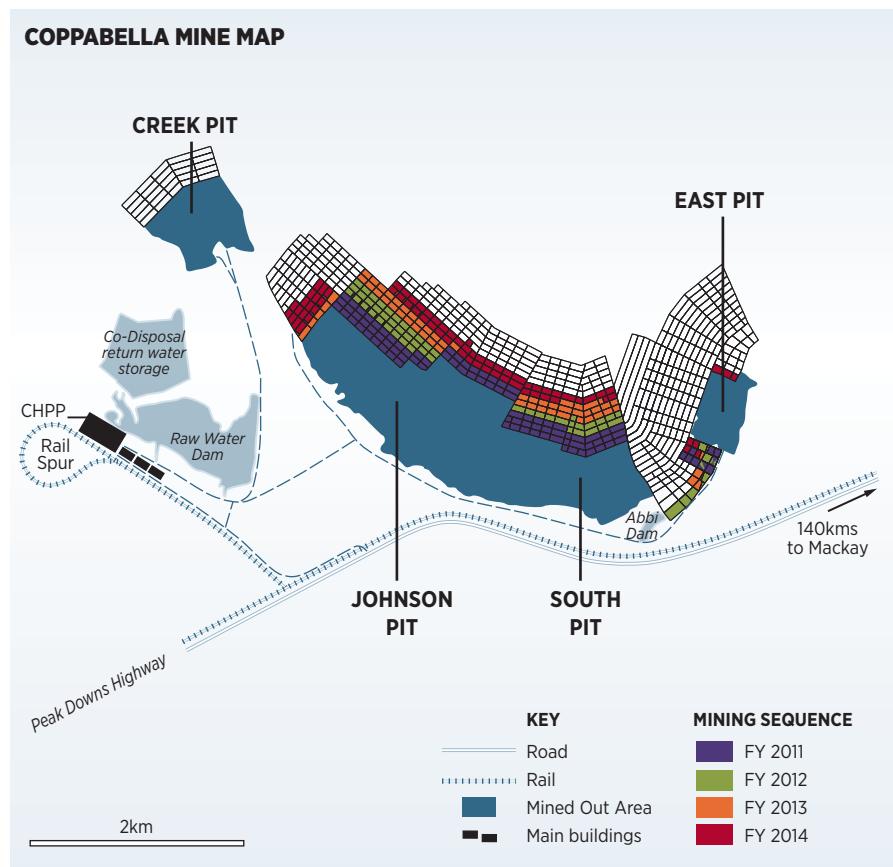
Resources were reallocated to focus on de-watering the pits. Additional pumping capacity and a new pipeline were installed to transfer water from operational pits to on-site storage dams and the existing water storage in Creek Pit. To expedite a return to production, once in-pit water levels dropped,

the dragline was used to assist excavators with the removal of mud from on top of coal.

Macarthur has ordered an additional six trucks and another large excavator, which will become operational during the 2012 financial year, in response to the increasing strip ratio and longer hauls as the mine reaches greater depths.

## 2011 PERFORMANCE

Prolonged wet weather made it difficult for crews to stay in advance of the dragline in regard to blasted inventory and pre-strip requirements, and this in turn created a tight mining sequence. Despite this challenging environment, Coppabella Mine still increased its rate of overburden removal for the third consecutive year. In the 2011 financial year, 28.6Mbcm of overburden was removed – a 3.2% increase on the previous reporting year.





Macarthur Coal's attributable production from the Coppabella Mine was 2.3Mt ROM coal and 2.1Mt product coal.

The mine's pre-production drilling program continues and is designed to improve the resource knowledge of the Coppabella deposit and to provide coal quality options for future product blending. As at 30 June Coppabella Mine had 59Mt of reserves, refer to the Resources and Reserves Statement on page 30. Additional development drilling and two-dimensional seismic geophysics is scheduled for FY2012.

*Environmental performance information is available on page 46-47.*

*Safety performance information is available on page 18-19.*

**MINE HISTORY**

The Coppabella Mine is recognised as one of the fastest coal mine developments in Australia and was the flagship asset of Macarthur Coal Limited when it listed on the Australian Securities Exchange in 2001.

In April 1997, a 10 metre thick coal seam was discovered within the Coppabella exploration tenement, then owned by Macarthur Coal Pty Ltd, a privately owned company led by Ken Talbot. It took less than 15 months from the completion of the feasibility study in September 1997 to the first shipment of coal to Nippon Steel Corporation in November 1998.

Over a decade later in December 2009, the Coppabella Mine reached the landmark target of mining more than 50Mt of ROM coal since the feasibility study, which is more than the 40Mt that the original study was based on.

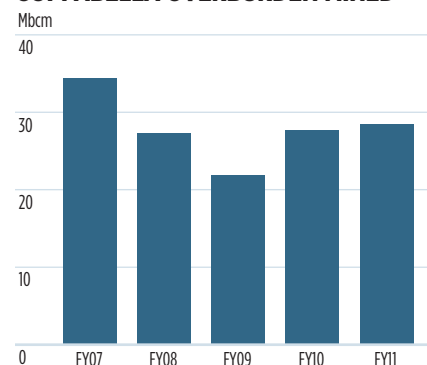
Macarthur was the first company in Australia to refurbish and commission a second-hand dragline from the United States of America, and it began operation at Coppabella in January 2003.

Other key milestones were the relocation of the transport infrastructure corridor in 2002 and the successful transition over a two-year period from a contract workforce to being fully owner-operator by June 2008.

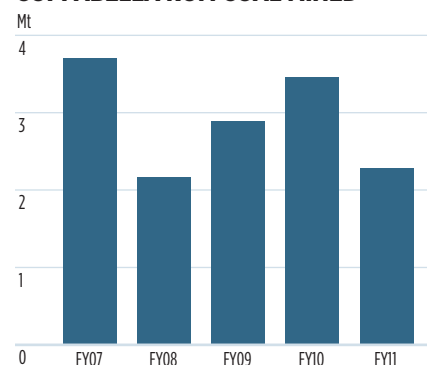
Macarthur has since invested record capital works in water infrastructure to respond to prolonged years of drought and, more recently, to handle record rainfalls.

<b>Joint Venture and Manager</b>	Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd
<b>Macarthur Coal's interest</b>	73.3%
<b>Tenements</b>	ML 70161, ML 70163, ML 70164, ML 70236 and ML 70237
<b>Location</b>	140km south-west of Mackay between the townships of Nebo and Moranbah
<b>Coal type</b>	LV PCI Coal The average seam thickness is 10 metres.
<b>Mining operations</b>	Open-cut coal mining operations are carried out using conventional strip mining using a shovel, excavators and trucks for pre-stripping and dragline for coal exposure. Mining operations are carried out by Macarthur Coal (C&M Management) Pty Ltd and coal processing and train loading are undertaken by Sedgman Limited through an 800tph CHPP. Mining and coal preparation activities are carried out 24 hours per day, seven days a week. Blasting activities are carried out by Orica Limited.

**COPPABELLA OVERBURDEN MINED**



**COPPABELLA ROM COAL MINED**



Macarthur's attributable share of overburden removal at Coppabella was 28.6Mbcm - a slight increase on the previous year, ROM coal production was impacted by wet weather - down to 2.3Mt.

# MOORVALE MINE



**Excavator loading haul truck at Moorvale Mine** – a total of 3.3Mt (100% basis) ROM coal was mined at Moorvale in FY2011.

The Moorvale Mine weathered the impacts of the heavy unseasonal rain events slightly better than the Coppabella Mine, thanks in part to the structure of its coal seams requiring the use of terrace mining and a revision of the mine plan.

Moorvale is situated in close proximity to Coppabella, so experienced similar operating challenges due to record wet weather. During the 2011 financial year, operations lost 45 (24-hour) days due to weather delays, with an historic high of 1,162mm falling in Moorvale’s pit catchment area.

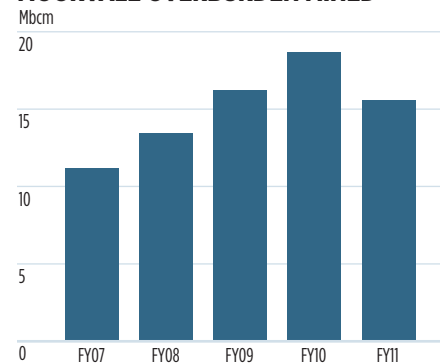
Moorvale is made up of six pits (A to F) and production during this financial year relied

heavily on terrace mining in F Pit and then progressed into C Pit for initial development of this area.

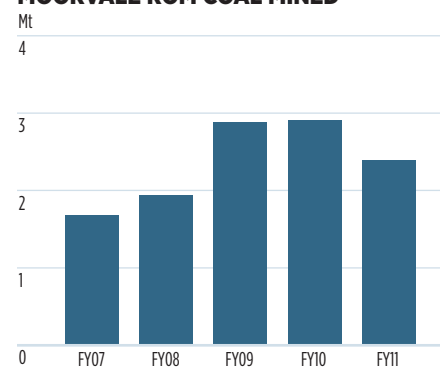
Terrace mining involves excavation by excavator and truck only and consequently has a higher cost per cubic metre. While not widely used in the Bowen Basin, terrace mining is standard practice in other parts of Australia, particularly in open pits that have steeply dipping seams like C and F Pits.

F Pit’s terraced mining operation became advantageous during the wet weather because both overburden removal and coal mining could continue at higher bench levels, in turn mitigating the impact of in-pit water on production levels.

## MOORVALE OVERBURDEN MINED



## MOORVALE ROM COAL MINED



Macarthur’s attributable share of overburden removal at Moorvale was 15.6Mbcm – a decrease on the previous year. ROM coal production was impacted by wet weather – down to 2.4Mt.

The mine plan was amended to steepen the pit progressively to capitalise on coal available at higher levels. By the end of FY2011, Moorvale had six working benches opened and had progressed with initial works into the C Pit area. Mining will continue in C and F Pits over the next three years.

## 2011 PERFORMANCE

The 2011 target for overburden removal from upper waste horizons was based on continued mining of F Pit, with a production fleet of four excavators. Unplanned maintenance in the first quarter of the financial year, coupled with wet weather, resulted in overburden removal being down 16.6% on the previous year to 15.6Mbcm.

Like Coppabella, limited run of mine (ROM) coal stocks were available prior to the early onset of the wet season, with production delays directly impacting saleable coal production. Subsequently, *force majeure* was in place under customer contracts from 3 December 2010 to 28 April 2011.

Moorvale's production during the financial year was 2.4Mt of ROM coal (Macarthur's share) and 1.8Mt product coal, which was below the target of 2.1Mt product coal. The impact of the wet weather is most evident when comparing these production achievements against FY2010, when Moorvale recorded 2.9Mt of ROM coal and 2.3Mt product coal.

Despite rain delays, Moorvale's CHPP worked throughout the year at a steady rate and this was managed by mining sections higher up in the pit bench levels, avoiding issues with in-pit water.

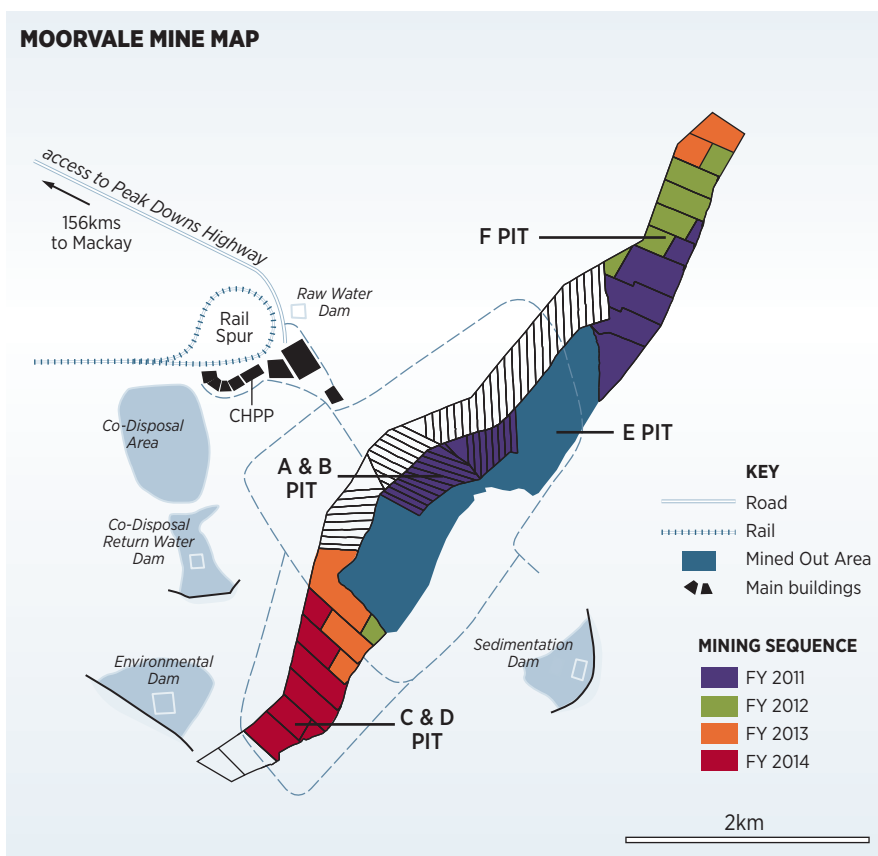
*Environmental performance information is available on page 46-47.*

*Safety performance information is available on page 18-19.*

**MINE HISTORY**

In December 2002, the Moorvale mining lease was granted and Macarthur Coal raised \$30 million in equity to partially fund Moorvale's development. Major infrastructure was completed within 18 months.

The first coal was mined at Moorvale in March 2003 and its first coal train was loaded in December the same year. The CHPP was later upgraded to 600tph in 2007.



(Indicative map as at 30 June 2011, illustrating only major dams, subject to change.)

<b>Joint Venture and Manager</b>	Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd
<b>Macarthur Coal's interest</b>	73.3%
<b>Tenements</b>	ML 70290, ML 70291, ML 70319
<b>Location</b>	156km south-west of Mackay near the townships of Nebo and Moranbah
<b>Coal Types</b>	LV PCI coal High ash PCI coal Coking coal Thermal coal The average seam thickness of the resource is nine metres.
<b>Mining Operations</b>	Open-cut coal mining operations are carried out by Leighton Contractors Pty Limited using Macarthur and Leighton owned excavators and trucks. Coal processing and train loading are carried out by Sedgman Limited through a 600tph CHPP. Mining and coal preparation activities are carried out 24 hours per day, seven days per week. Blasting is carried out by Orica Limited and drilling is undertaken by Drillpro.

# RAIL AND PORT FOR GROWTH

Macarthur Coal relies on rail and port infrastructure to transport and load product coal for shipping to customers. The Goonyella rail system links Coppabella, Moorvale and other coal mines in the central and northern Bowen Basin with the export facilities at the Dalrymple Bay Coal Terminal (DBCT) and Hay Point Coal Terminal. All of Macarthur's product was shipped through DBCT in FY2011.

The severe weather events experienced during the year resulted in significant damage to rail infrastructure throughout central and southern Queensland regions. The Goonyella coal chain fared well in comparison to other transport networks, with minimal outages sustained. While the impact on mine production led to lower than expected throughput, the close collaboration between industry and service providers has allowed planned maintenance and asset replacement activities to be brought forward, thereby maximising future capacity.



The Company has port contracts in place to achieve its objective of delivering 9.2Mtpa by 2014.

Macarthur's contracted port capacity at DBCT and Abbot Point Coal Terminal (APCT) through to 2018 is illustrated on page 25.

Key points being:

- long-term port capacity is 9.4Mtpa (Macarthur's equity share)
- the addition of Abbot Point capacity in FY2012 provides diversification across two ports
- allocation of Macarthur Coal capacity to the Coppabella and Moorvale Joint Venture (CMJV) from FY2012 to support development of the Codrilla Mine Project.

During the year, Macarthur continued its active industry participation, supporting development of new infrastructure projects beyond 2014 that underpin its sustainable growth objective.

## DALRYMPLE BAY COAL CHAIN

As coal supply recovered from weather events during the year, reduced throughput was a factor affecting all coal exporters using the Goonyella system. Annual throughput for DBCT was approximately 55Mt which was 35% less than the annual contracted capacity of 85Mt, and a decrease of approximately 13% on 2010 performance. Signs of recovery were experienced in the last quarter, with June 2011 recording the strongest throughput performance since the first major weather event in December 2010. The vessel queue at DBCT continued to ease throughout the year following an August peak and finished the financial year at 10 vessels, its lowest level since early 2009.

## RAIL TRANSPORT

On 1 November 2010, Pacific National commenced rail haulage for 7.0Mtpa (100% CMJV basis) from the Coppabella and Moorvale mines following expiry of the QR National contract. This contract is

in addition to the existing 3.7Mtpa Pacific National contract held by Macarthur Coal which commenced in July 2009, out of which up to 3.2Mtpa will be assigned to the CMJV to match future production from Codrilla.

A major milestone was also achieved, when first coal samples were railed on behalf of the Middlemount project to DBCT. Earlier in the year, the Middlemount project secured a long-term contract with Pacific National for the haulage of 3.0Mtpa to APCT.

## GOONYELLA-ABBOT POINT EXPANSION

Major construction works for the Goonyella-Abbot Point expansion (GAPE), previously known as the Northern Missing Link, were undertaken during the year. The GAPE will connect the Goonyella rail system with the Newlands rail system via a new 69-kilometre rail link and will allow coal produced in the northern Bowen Basin to be exported through the expanded APCT.

Despite the weather events of 2010 and early 2011, the rail link and port infrastructure works are on track for first railings in January 2012. This will provide the Middlemount Mine and Macarthur with access to an expanded port and provides an alternative option for customers to source coal from Queensland.

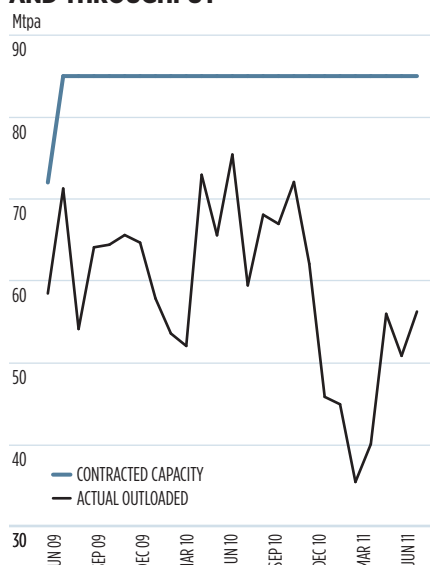
## CAPACITY EXPANSIONS

The long-term outlook for coal demand is strong. Development of additional port capacity to meet this demand is planned at several locations across Queensland. The most advanced of these projects is Stage 1 of the Wiggins Island Coal Export Terminal (WICET) at Gladstone, which is currently scheduled for completion during 2014.

This year has also seen the commencement of processes for the Stage 2 expansion of WICET, and additional terminals at APCT (T4-T7) and Dudgeon Point (Port of Hay Point). Delivery of these projects will provide an additional 250Mt of port capacity by 2020. Macarthur continues to actively participate in these projects.

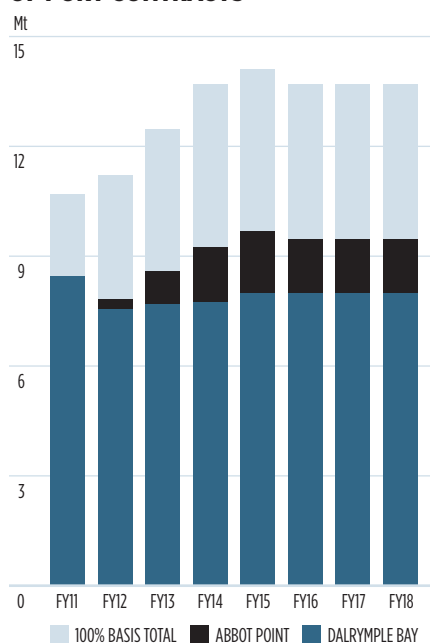
**PCI coal bound for DBCT** – A fully laden Pacific National train loaded with approximately 10,000 tonnes of 'Coppabella PCI' departing from the mine's load-out facility in June 2011.

### DBCT - CONTRACTED CAPACITY AND THROUGHPUT



Annual throughput for DBCT was approximately 55Mt, which was 35% less than the annual contracted capacity of 85Mt, and a decrease of approximately 13% on 2010 performance.

### MACARTHUR COAL EQUITY SHARE OF PORT CONTRACTS



MacArthur Coal has long-term port capacity to match its production goals of 9.2Mtpa by 2014.

**Stockpiles with a view** - Coppabella Mine's CHPP has the capacity to produce 800tph of product coal which is stockpiled for export to customers around the world.

## Wiggins Island on the horizon

The planned Wiggins Island Coal Terminal (WICET) will provide in excess of 80Mtpa of new export capacity to the Port of Gladstone when fully developed.

The WICET project is the first coal terminal in Queensland to be owned and developed directly by industry. Traditionally, this role has been performed by third party service providers or government.

Macarthur Coal has been an active participant in the industry consortium since its inception in 2008. The project is well progressed with the signing of a framework agreement with the Queensland Government and Gladstone Ports Corporation in late 2009 providing the industry group with the opportunity to develop and own the new facility.

A final decision to proceed with Stage 1 of the project is due during the first quarter of FY2012. Stage 1 is expected to deliver 27Mtpa of new capacity for the eight initial owners in 2014. Macarthur does not have capacity in Stage 1.

During 2011, Macarthur submitted expressions of interest to secure capacity in Stage 2, the next expansion phase of the project, to support its southern Queensland growth projects. Macarthur, as part of its projects' joint ventures, provided underwriting for WICET's feasibility study, giving it 'capacity priority status' for Stage 2. Capacity is expected to be available from around calendar year 2015.



# SALES AND MARKET REPORT

Macarthur Coal continues to be the world’s largest producer of seaborne low volatile pulverised coal injection (LV PCI) coal – with a strong diversified customer base that will underpin a growing demand for steel commodities<sup>1</sup> in the next decade and beyond. Demand and prices for metallurgical coal were stronger than expected in the 2011 financial year – driven primarily by increasing steel production in China and South Korea, the recovery of traditional steel markets, and the supply disruptions caused by record rainfall and flooding across Queensland coalfields.

This combination of production and market conditions resulted in historically high price settlements for LV PCI coal in the June 2011 quarter.

‘Coppabella PCI’ is Macarthur’s premium metallurgical coal brand and its ongoing success is closely linked to the strong rebound in steel production.

Demand for metallurgical coal on the world seaborne market is projected to reach approximately 280Mt in calendar year 2011, compared to 260Mt in 2010<sup>1</sup>.

The long-term projections for increased demand give Macarthur confidence that it has the operating mines and projects in development to meet the market’s requirements and to reach its sales target of 9.2Mtpa by 2014.

## 2011 PERFORMANCE

Metallurgical coal supply from Australia in the second half of FY2011 was significantly impacted by record rainfall and flooding across the Queensland coalfields.

The high volume of rainfall received across the Bowen Basin between August and March, directly impacted the Company’s coal mining and subsequent product stockpiles resulting in the declaration of *force majeure* under the provisions of customer contracts on 3 December 2010.



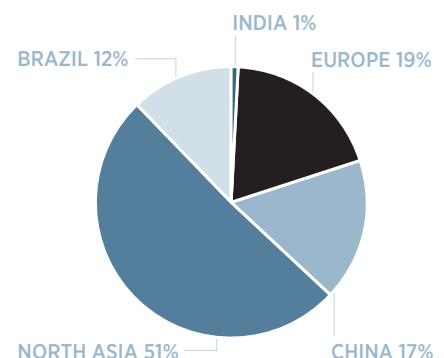
(Top) Moorvale CHPP operates 24 hours a day – product stockpiles awaiting transport.

(Bottom) Sinfa Bridge opened in June 2011 – Macarthur’s LV PCI coal was a key ingredient in making the steel used to construct the Sinfa Bridge. The US\$17.4 million structure in southern Taiwan is 465m long and 13m wide. It was rebuilt and funded by China Steel Corporation after it was destroyed by Typhoon Morakot in 2009. Image courtesy of China Steel Corporation.

This extended wet season disrupted deliveries of LV PCI coal to customers. *Force majeure* was lifted on 28 April 2011 and operational recovery progressed during the fourth quarter. Despite the difficult circumstances, the Company recorded coal sales of 3.9Mt for FY2011, within its revised target range of between 3.8Mt – 4.0Mt. Despite the pressure that a declaration of *force majeure* put on its customers’ purchasing plans, Macarthur’s people received commendations directly from customers about its proactive communication and regular updates. This is testament to the strength and longevity of the customer relationships Macarthur has fostered and an example of the Company’s values in action to ‘talk straight’ and ‘work together’.

The Company fulfilled strong sales volumes of LV PCI coal into China and built longer-term relationships with customers from this attractive growth market. China began importing metallurgical coal for the first time in 2009 and continues to be a significant buyer alongside Macarthur’s traditional customers located in North Asia (Japan, Korea and Taiwan), Europe and Brazil.

## SALES BY MARKET FY2011



<sup>1</sup> Market information sourced from H&W Worldwide Consulting Pty Ltd.



Asian producers continued to benefit from strong export sales of steel, driven by demand in the developing markets of China, India and South East Asia.

Demand from Brazil also remained buoyant, driven by a combination of domestic steel demand and export growth.

In the face of continued debt concerns in the region, steel demand and production in Europe has continued to grow since 2010, although remaining below pre-2008 levels. Steel demand in the United States continues to recover at a modest pace.

**OPTIMAL SALES MIX**

China's demand for LV PCI coal ensured an optimal sales mix for MacArthur's metallurgical coal sales this financial year. Global sales of LV PCI coal from the Coppabella and Moorvale mines accounted for 86% of total sales.

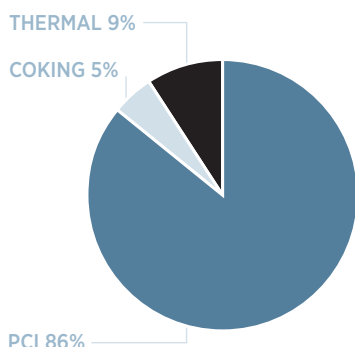
The Middlemount Mine Project, which is in the final stages of development, will diversify MacArthur's sales mix with the supply of coking coal. Market samples were shipped to customers in early 2011 in advance of full scale production in the 2012 financial year.

MacArthur recently announced Codrilla as its fourth mine project, which is expected to produce 3.2Mtpa of LV PCI coal (2.3 Mtpa is MacArthur's attributable share). It is of a similar quality to MacArthur's premium brand 'Coppabella PCI' and will strengthen MacArthur's leading position for LV PCI coal on the seaborne market.

**QUARTERLY PRICING**

In line with customer requests and the majority of other coal producers, MacArthur moved away from negotiating sales contracts on annual pricing to quarterly pricing in 2010. MacArthur will continue to monitor and evaluate industry trends and work with customers to gauge the effectiveness and value of shorter-term pricing practices.

**SALES BY PRODUCT FY2011**



# POSITIVE OUTLOOK FOR LV PCI COAL

World steel production levels are forecast to reach record levels in the 2011 calendar year<sup>1</sup>, a lead indicator for low volatile pulverised coal injection (LV PCI) coal sales and prices.

Emerging economies, such as China and India, are largely driving the growth in steel production, which has been further boosted by strong shipping volumes to traditional markets and a faster than anticipated recovery in Japan after the earthquake and the subsequent tsunami events in March 2011. This increased steel demand is putting pressure on the supply and price of raw materials for steel making.

To minimise costs and increase productivity, the world's leading steel makers are constructing new larger blast furnaces and upgrading existing blast furnaces to deliver economies of scale. These larger blast furnaces require either larger volumes

of coke (made from coking coal) or an increased volume of LV PCI coal.

LV PCI is used by the world's steel makers because it enhances furnace productivity and lowers costs by reducing the requirements for hard coking coal.

Depending on the individual blast furnace, typically 1.0t of LV PCI coal can replace 1.3t of more expensive coking coal. This reduction in the amount of coke necessary, lowers operating costs for steel production.

Reduced levels of coking coal combustion also has benefits for carbon emissions. Internal research suggests the replacement of 1.3t of hard coking coal with 1.0t of LV PCI may result in 0.5t less CO<sub>2</sub>-e emissions.

PCI coals range in quality and 'Coppabella PCI' is considered the international benchmark for premium LV PCI coal.

Blast furnace performance data has shown Macarthur's product has a superior coke replacement ratio than most competitor PCI coals and the fact that it is softer and easier to grind is proven to reduce mill power and wear.

As the availability of premium hard coking coal remains constrained and the demand for pig iron for steel making continues to climb, the long-term outlook for the LV PCI coal market is positive and ensures future demand for Macarthur's principal product.

## STEEL MAKING WITH PCI COAL

With a long, established history, the blast furnace remains the most cost-efficient method for producing pig iron, which is the basic feedstock for steel making.

<sup>1</sup> Market information sourced from H&W Worldwide Consulting Pty Ltd.

**Cutting edge blast furnace technology** – The South Korean steel maker Hyundai Steel Company increased its capacity with the completion of its second blast furnace in November 2010. This new furnace is at its integrated steel works in Dangjin, south of Seoul, and has a 4Mt capacity and uses eco-friendly technologies. *Image courtesy of Hyundai Steel Company.*





“Macarthur Coal offers its heartfelt condolences to all those affected by the earthquake and the subsequent tsunami events in the Tohoku region of Japan in March 2011.”

Scott Croger, VP Marketing.

## Resilient Japanese steel producers rebound

Macarthur Coal has had a long and productive friendship with its Japanese customers, so the news that the Tohoku region had been hit by an earthquake and tsunami in March 2011 was devastating.

“Macarthur Coal is a global family and we wish our colleagues and customers in Japan, and their family and friends, a speedy recovery from this year’s disasters,” Vice President Marketing, Scott Croger said.

The Company’s association with Japanese steel producers started with the very first shipment of coal from the Coppabella Mine in November 1998. Since then Macarthur has established

strong and ongoing relationships with its major customers including Nippon Steel Corporation, JFE Steel and Sumitomo Metal Industries.

In addition to the human cost, the earthquake and ensuing power shortages had a swift and immediate impact on Japan’s domestic steel production, drastically curtailing finished steel production for car manufacturers and downstream suppliers of automotive parts. The shortage in key parts had ramifications for overseas automotive producers as far afield as Europe and the United States of America. This slowdown in production had a flow-on effect for raw material demand,

particularly for metallurgical coal in the June Quarter.

After a temporary downturn, there was a quicker than anticipated recovery of the automotive industry and Japanese steel producers have demonstrated their resilience by being able to respond accordingly. Crude steel production levels in the current Japanese fiscal year are projected to reach similar levels to those achieved in the preceding year, according to predictions by the Japan Iron and Steel Federation.

In the longer-term it is anticipated domestic steel demand will recover alongside the recovery activities in eastern Japan.

Coke is produced from a metallurgical coal called coking coal and it is the main ingredient in blast furnace steel production. Coke is fed into the blast furnace together with iron ore and a small quantity of limestone fluxes.

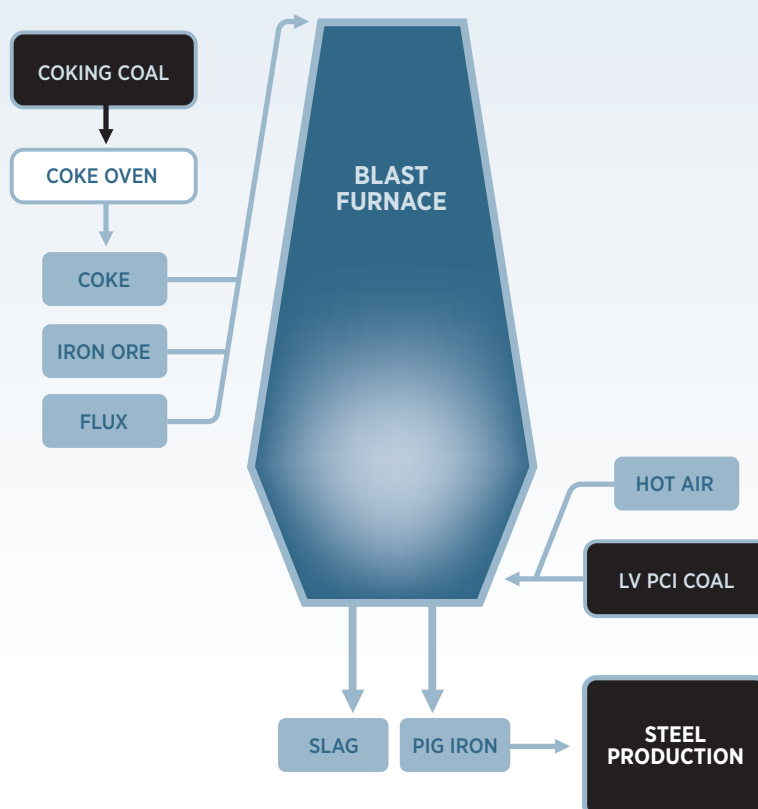
As these inputs enter the furnace, air is heated to around 1,200°C, and blown in from the base. The air causes the coke to burn, producing carbon monoxide which reduces the iron ore to pig iron, melting it as it moves to the bottom of the furnace. A tap hole at the bottom of the furnace is opened periodically and the molten pig iron and impurities (slag) are drained off. The molten pig iron is then further refined into a variety of steel products.

Rather than being fed into the top of the blast furnace like coke, PCI coal is crushed and directly injected into the furnace with no further treatment.

Compared to coke, PCI coal provides a more cost-effective way to heat and react with the iron ore and is therefore a key means for cost minimisation in the steel making process.

Cost savings are achieved through both the direct replacement of a portion of the more expensive coke and increased efficiency of the reactions within the blast furnace.

### STEEL MAKING PROCESS USING LV PCI COAL



# RESOURCES AND RESERVES

RESOURCES AND RESERVES STATEMENT (100% PROJECT BASIS) AS AT 12 AUGUST 2011

Project	MCC Interest	Resources (Mt)				Recoverable Coal Reserves (Mt)			Competent Person (Reference)
		Measured	Indicated	Inferred	Total	Proved Reserve	Probable Reserve	Total	
Coppabella Mine	73.3%	57.1	120.8	16.5	194.4	34.0	25.0	59.0	1,2
Moorvale Open-cut	73.3%	28.5	2.0	0.3	30.8	28.0	1.0	29.0	1,2
Moorvale Underground	73.3%	36.0	34.0	13.9	83.9	5.9	7.5	13.4	2,5
Middlemount	50.0%	89.3	31.5	1.8	122.6	69.0	27.0	96.0	1,3
Moorvale West	90.0%	100.3	31.6	14.0	145.9	-	-	-	3,4
Olive Downs North	73.3%	30.6	35.3	61.3	127.2	10.0	1.6	11.6	1,3
Olive Downs South	90.0%	25.8	18.0	228.3	272.1	-	-	-	3,4
Codrilla	73.3%	42.8	12.7	24.0	79.5	32.0	18.0	50.0	1,3
Yeerun	85.0%	0.0	0.0	66.0	66.0	-	-	-	3
West Rolleston	90.0%	47.2	105.9	216.0	369.1	-	-	-	3
Vermont East	85.0%	0.8	29.9	149.0	179.7	-	-	-	3
Willunga	85.0%	169.2	93.7	55.0	317.9	-	-	-	3
Monto	41.0%	22.4	50.0	256.0	328.4	-	-	-	6
<b>Totals (100% Project Basis)</b>		<b>650.0</b>	<b>565.4</b>	<b>1,102.1</b>	<b>2,317.5</b>	<b>178.9</b>	<b>80.1</b>	<b>259.0</b>	

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

All Resources comply with the JORC Code 2004. The JORC Code is a code prepared by the Joint Ore Reserve Committee which defines criteria for publicly reporting resources and reserves.

All Reserves reported in the above table are components of the reported Resources.

The information in this report that relates to Coal Reserves at Coppabella Mine, Moorvale Open-cut, Middlemount, Olive Downs North and Codrilla 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 Mine, Moorvale Open-cut and Moorvale Underground is derived from geological modelling by Mal Blaik BScApp (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 Olive Downs North, Vermont East, Willunga, Moorvale West, Middlemount, Codrilla and Yeerun is derived from geological modelling by Greg Jones BSc (Hons) MAusIMM, MAIG (3) from data compiled by Rees Thomas. Greg Jones is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596). Rees Thomas BSc (Hons) MAusIMM is Chief Geologist for Macarthur Coal Limited.

The information in this report that relates to Coal Resources at Moorvale West and Olive Downs South 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, FAusIMM, 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 the Underground Coal Reserves at Moorvale is based on information compiled by Jack Steenekamp, BEng(Min)(Hons), BEng(Mech), MBA, FAusIMM (5). Jack Steenekamp is employed by Mining Consultancy Services (Australia) Pty Ltd.

The information in this report that relates to Coal Resources at Monto is based on information verified by Greg Jones B Sc (Hons) MAusIMM, MAIG (6). Greg Jones is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596).

Mark Bryant, Mal Blaik, Greg Jones, Lance Grimstone and Jack Steenekamp 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 and Jack Steenekamp consent to the inclusion in the report of the matters based on the information in the form and context in which it appears.

## Definitions

Source: Appendix 5A Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code).

A **'Measured Mineral Resource'** is 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 grade continuity.

An **'Indicated Mineral Resource'** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits,

workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

An **'Inferred Mineral Resource'** is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low 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.

A **'Proved Ore Reserve'** is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A **'Probable Ore Reserve'** is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A **'Competent Person'** is a person who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Overseas Professional Organisation' ('ROPO') included in a list promulgated from time to time.

A **'Competent Person'** must have a minimum of five years experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which that person is undertaking.

# GROWTH



# DELIVERING SUSTAINABLE GROWTH

Macarthur Coal and its joint venture partners have an extensive portfolio of high potential coal assets across Queensland's Bowen Basin as shown on the Tenement Map on the inside cover of this report.

The Company has a history of successfully transforming greenfield tenements into profitable mining operations with both Coppabella and Moorvale delivered on time and on budget. In 2011 the Company continued the progression of its third mine at Middlemount and announced its fourth mine project – Codrilla.

The development of both Middlemount and Codrilla will deliver the additional tonnage required to reach the Company's five-year goal of achieving coal sales of 9.2Mtpa by 2014.

## PROJECTS GROWTH CAPABILITY

In the 2011 financial year the Company enhanced its technical and operational capability through the employment of high calibre people in the areas of environment, permitting, project management, evaluation, coal technology, strategic infrastructure, community relations, technical services, mine planning and underground operations.

Macarthur Coal is capable of progressing projects through all the phases of the mine life cycle – exploration, evaluation, development, operation and marketing.

This strength builds on a strategy that has steadily increased investment in exploration. Macarthur's record exploration spend in recent years has provided the business and its shareholders with growing value based solidly on an expanding resource base. As a result, a number of long-term prospects are now ready for detailed evaluation.

In the 2011 financial year Macarthur awarded seven contracts for the preparation of baseline studies (including flora, fauna, water, traffic, air quality, noise, vibration and visual amenity) to meet statutory requirements for developing future mines. The exploration, projects, operations and marketing teams are collaborating to secure the community support, government approvals, rail and port capacity, workforce and customers necessary for each project's development.

The Company recognises the value in extending the life of existing mines and has the tenements and tenure to do so. In the 2011 financial year exploration at Olive Downs North, West Walker and underground studies provided additional resource definition and mine integration opportunities that could extend the life of the Moorvale and Coppabella mines.

The mine life extensions in combination with the greenfield tenement development provides a solid foundation for sustainable

growth, the realisation of Macarthur's saleable production targets and long-term shareholder value.

The Company has port contracts in place to achieve its objective of delivering 9.2Mtpa by 2014. Macarthur has contracted up to 9.4Mtpa port capacity at Dalrymple Bay Coal Terminal (DBCT) and Abbot Point Coal Terminal (APCT) through to 2018.

The Company has also commenced expression of interest processes for the Stage 2 expansion of Wiggins Island Coal Export Terminal, and additional terminals at APCT (T4-T7) and Dudgeon Point (Port of Hay Point). Delivery of these projects will provide Queensland with an additional 250Mt of port capacity by 2020. Macarthur continues to actively participate in these projects to support future growth.

## INCREASED RESOURCES THROUGH EXPLORATION

Macarthur Coal delivered a substantial \$13.5 million exploration program during the 2011 financial year in spite of the extended wet weather. These activities successfully expanded the Company's resource base and supported project planning and evaluations.

As at 12 August 2011, Macarthur's share of identified resources was 1.76 billion tonnes<sup>1</sup>, a 46% increase since 30 June 2010. The illustration (above right) is the distribution of the resource volume across the project portfolio, while the graph (below right) is the resource volume across the mine life cycle – exploration, evaluation, development and operation. For geographical references, refer to the Tenement Map on the inside front cover.

Willunga, Vermont East and the West Rolleston project areas were the focus of exploration activities during the 2011 financial year. In May 2011 the Company announced the results of these exploration activities with substantial resource upgrades:

- Coal resources within West Rolleston tenement are increased by 361% from 80.1Mt to 369.1Mt<sup>1</sup> (100% basis)
- Coal resources within Vermont East/Willunga increased by 202% from 164.6Mt to 497.6Mt<sup>1</sup> (100% basis).

**Exploration drill rig at Willunga** – Macarthur Coal has budgeted a record \$60 million for exploration and evaluation of its tenements in FY2012.



Exploration drilling as part of development works at Middlemount resulted in resources increasing from 100.1Mt to 122.6Mt<sup>1</sup> in August 2010, and reserves increasing from 57Mt to 96Mt<sup>1</sup> in March 2011 (100% basis). This 68% increase in recoverable coal reserves supports Middlemount Coal's plans to increase production up to 5.4Mtpa ROM coal in 2012.

In August 2011, Macarthur Coal announced the identification and definition of an inferred resource for the Yeerun deposit, within EPC 676 held by the Bowen Basin Coal Joint Venture. Macarthur Coal has an 85% interest in the Yeerun deposit, located west of the existing Codrilla Mine Project, providing an attributable net coal resource of 56.1Mt<sup>1</sup>.

The Company's commitment to explore and evaluate its tenements will continue to ramp up with a record \$60 million budgeted in 2012 to underpin and accelerate Macarthur Coal's exploration and evaluation program.

**UNIQUE PROJECT PORTFOLIO**

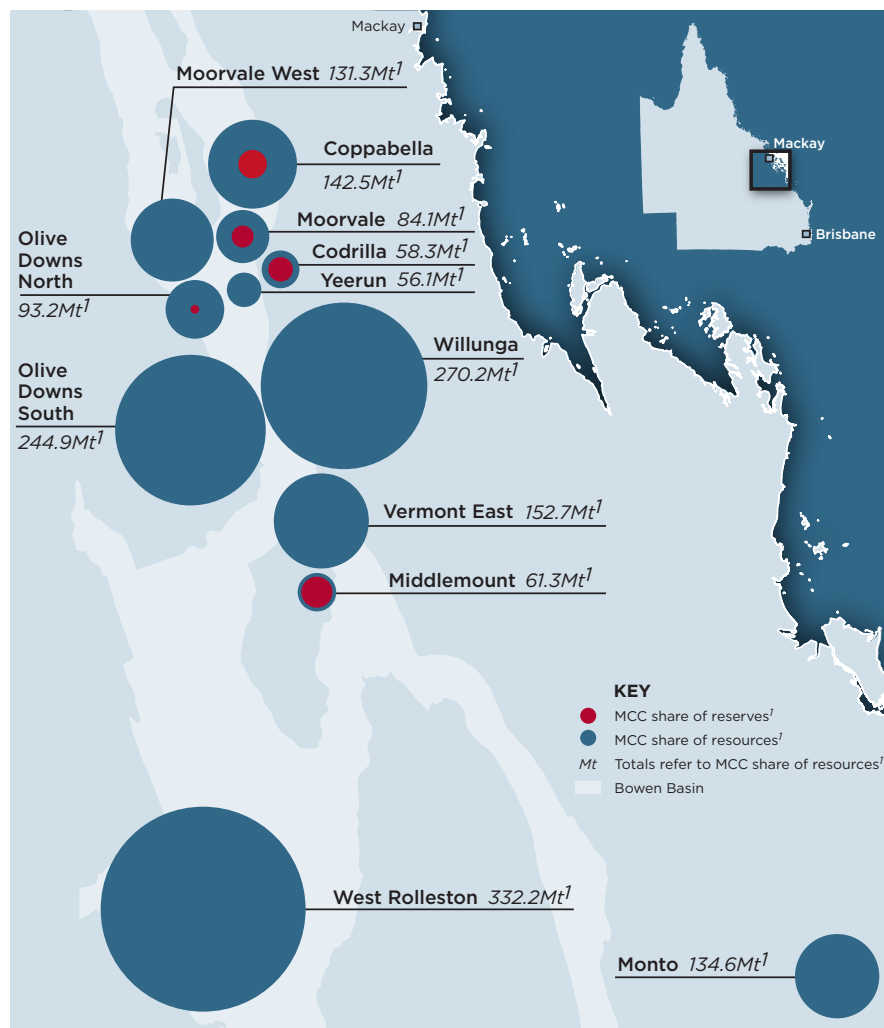
Macarthur Coal has interests, through its strategic joint venture partnerships, in 12 mining leases (ML), eight mining lease applications (MLA), a mineral development licence (MDL), a MDL application, 27 exploration permits for coal (EPC) and two EPC applications.

Current ownership, resource status, location and exploration activities are detailed in the project summaries on pages 39 to 44.

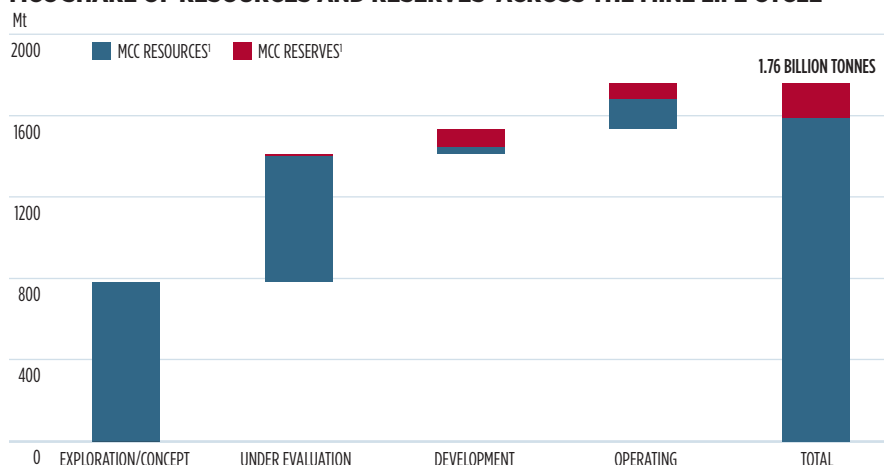
As it brings this suite of projects from evaluation to development, Macarthur will be in a position to expand its LV PCI coal market share and reduce the Company's risk profile by diversifying mining operations, coal types and infrastructure access.

The Macarthur Coal portfolio and capability provide the opportunity for substantial and profitable growth and increased shareholder value.

**MCC SHARE OF RESOURCES AND RESERVES<sup>1</sup> ACROSS THE PROJECT PORTFOLIO**



**MCC SHARE OF RESOURCES AND RESERVES<sup>1</sup> ACROSS THE MINE LIFE CYCLE**



<sup>1</sup> All reserves reported are components of the reported resources. The illustration and graph above show only the MCC share of the Resources and Reserves. The full Resources and Reserves Statement (100% Project Basis) is shown on page 30.

# MIDDLEMOUNT MINE PROJECT



Coal exposed in pit at Middlemount – Preliminary mining operations commenced at the mine in the first half of CY2011.

Substantial progress was made during the 2011 financial year in advancing the Middlemount Mine Project. It's positioned to be the first greenfield coal mine developed in the Bowen Basin since 2007 and one of the first to benefit from the Goonyella to Abbot Point Expansion (GAPE) rail project.

Once operational, the Middlemount Mine will be Macarthur Coal's third operating mine and a key contributor to Macarthur reaching coal sales of 9.2Mtpa by 2014. It will also provide diversity to the sales mix with a supply of coking coal. A variety of market samples were shipped to customers to build product awareness ahead of full-scale production, which is expected in late 2011 calendar year.

The mine site is six kilometres south-west of the township of Middlemount and 120 kilometres south of the Coppabella Mine. On a 100% basis, it has production approval for 1.8Mtpa ROM coal (Stage 1). Due to the size and quality of the coal resources, Middlemount Coal is in the process of seeking an amendment to the existing Environmental Authority (EA) to expand up to 5.4Mtpa ROM coal (Stage 2).

## PARTNERSHIP HISTORY

Macarthur Coal acquired its interest in the Middlemount Mine Project in January 2008, through the purchase of Custom Mining Limited, which had a 74.66% shareholding in Middlemount Coal Pty Ltd (Middlemount Coal). At that time Noble Group Limited was Macarthur Coal's joint venture partner in Middlemount Coal.

A Mining Lease was granted to Middlemount Coal in September 2009 for a mine with production capacity of 1.8Mtpa ROM coal. Construction of the coal handling and preparation plant (CHPP) and other mine infrastructure including dams, roads and other earthworks commenced shortly after the lease was granted.

In the second half of 2010, Gloucester Coal Ltd acquired the Middlemount joint venture assets from Noble Group Limited, and subsequently exercised its option to acquire additional shares from Macarthur in December 2010. Macarthur currently has a 50.0003% interest in Middlemount Coal.

## MINING OPERATIONS COMMENCE

The CHPP was constructed in less than 12 months by Sedgman Limited with construction completed in September 2010. It has processed approximately 202,000 tonnes of ROM coal into 131,000 tonnes of product coal (100% basis as at 30 June 2011). Preliminary mining operations commenced in the first half of the 2011 calendar year with NRW Holdings Limited.

Until the Middlemount rail spur is complete, product coal is being trucked to a nearby third-party rail load-out facility to transport bulk market samples to Dalrymple Bay Coal Terminal. The samples give customers a better understanding of the quality of the Middlemount LV PCI coal product. Macarthur's share of these preliminary sales for the 2011 financial year was 41,400 tonnes. This coal shipment was a significant milestone as the project approaches full-scale production. Trial sales will continue in the first half of 2012 financial year.

By September 2010 haul roads, dams, tailings storage facility and levees were completed. These civil works were thoroughly tested during a record wet season and their quality design and construction has prevented potential material damage on site. Significantly less water was retained in the Middlemount pit than almost all other projects in the region.

A new permanent site office was completed and construction is nearing completion on a workshop, with an undercover area for the maintenance of up to six haul trucks, as well as fuel storage, tyre handling and vehicle wash down areas.

Middlemount Coal took responsibility for safety and health management on site in October 2009. During construction there has been no lost time injuries, and in relation to mining operations there has been only one lost time injury. This strong safety result is due to the cooperative and vigilant approach taken by Middlemount Coal and its contractors.

Sedgman has a long-term contract to undertake the coal handling, preparation and rail load-out services for the Middlemount Mine and NRW was awarded a five year contract to undertake mining services starting 1 July 2011.

**ENVIRONMENTAL IMPACT STATEMENT PROGRESSSED**

The draft Environmental Impact Statement (EIS) to support the mining lease application to expand production from 1.8Mtpa ROM to up to 5.4Mtpa ROM was available for public comment for seven weeks from February to March 2011. No substantial issues were raised during the consultation period and no submissions were received from non-government organisations or members of the general public. The Supplementary EIS has been lodged and addresses the issues raised in 11 submissions presented by government agencies.

Middlemount Coal expects to obtain its EA to increase production by July 2012.

**INCREASED RESOURCES AND RESERVES**

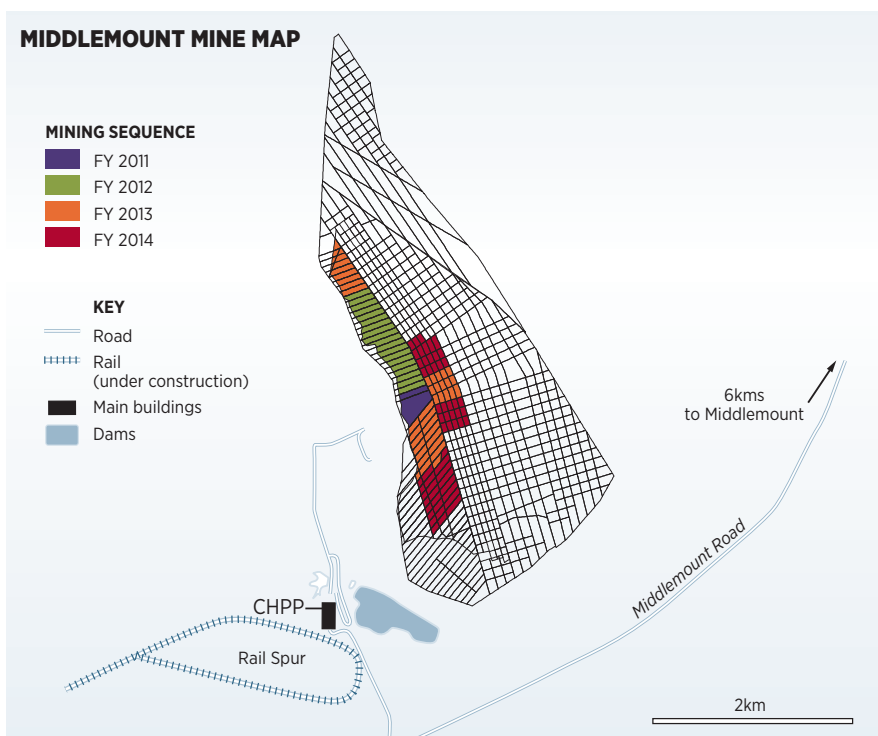
In August 2010, as a result of exploration drilling, the total resources for the Middlemount Mine Project increased from 100.1Mt to 122.6Mt<sup>1</sup>. In March 2011, following further exploration and increased understanding of product coal quality, the reserves for the project increased from 57Mt to 96Mt<sup>1</sup>, representing a 68% upgrade in recoverable coal reserves.

These increases justify the joint venture's plans to increase production up to 5.4Mtpa ROM coal.

**RAIL AND PORT CAPACITY SECURED**

Approval for a 16.5 kilometre rail spur to provide access to the Goonyella Rail System was granted by the Isaac Regional Council in August 2010. The Middlemount Early Rail Alliance, made up of the John Holland Group and GHD, commenced construction a month later. However, progress was almost immediately slowed due to historically high rainfall between September 2010 and April 2011. In that seven-month period, the site received 2.5 times the average annual rainfall. When dry weather returned, the Alliance had up to 350 personnel on site seeking to expedite completion of the rail spur. The rail project is expected to be complete by late 2011 calendar year.

<sup>1</sup> Refer to Resources & Reserves Statement on page 30.



(Indicative map as at 30 June 2011, illustrating only major dams, subject to change.)

Middlemount's coal product will be exported initially via the Dalrymple Bay Coal Terminal until the Goonyella Abbot Point Expansion (GAPE) is complete in early 2012. Previously known as the 'Northern Missing Link', GAPE will connect the Goonyella Rail System to the Abbot Point Coal Terminal near Bowen.

Middlemount has secured long-term contracts with Abbot Point for port capacity and with Pacific National for rail haulage and will be one of the pioneer projects to benefit from the multi-million dollar rail expansion.

<b>Joint Venture and Manager</b>	Incorporated joint venture between Macarthur Coal Limited and Gloucester Coal Limited – managed by Middlemount Coal Pty Ltd.
<b>Macarthur Coal's interest</b>	50.0003%
<b>Tenements</b>	ML 70379, MLA 70417, MDL 282, EPC 1225.
<b>Location</b>	The Middlemount Mine Project is six kilometres south-west of the township of Middlemount and 90 kilometres north-east of Emerald in the Bowen Basin.
<b>Coal types</b>	Semi-hard coking coal Low to medium volatile PCI coal
<b>Mining operations</b>	Mining (including drilling and blasting) is undertaken by NRW Holdings Limited using hydraulic excavators and trucks. Coal processing will be undertaken by Sedgman Limited through a 400tph CHPP, to be expanded in FY2012 to 700tph. Mining and coal preparation activities will be carried out 24 hours per day, seven days per week.

# CODRILLA MINE PROJECT

In May 2011 Macarthur Coal announced the Codrilla project as its fourth mine project. Codrilla was selected ahead of other assets in the Company's tenement portfolio because its estimated coal production matches existing port capacity and operations can take advantage of existing infrastructure at Moorvale. Codrilla also takes advantage of the continuing growth in demand for Macarthur's LV PCI coal product on the international market.

The proposed mine site is 30 kilometres south-east of Moorvale Mine in the Bowen Basin. Codrilla's estimated production is 4.0Mtpa ROM coal which will supply 3.2Mtpa of low volatile PCI coal on a 100% basis. It will be an open-cut truck and excavator operation, with the coal being washed at a new coal handling and preparation plant (CHPP) on site, and product coal trucked via private haul road to the Moorvale Mine for rail load-out. The coal will be shipped through secured capacity at the Dalrymple Bay Coal Terminal (DBCT).

Construction of the mine is expected to commence in the 2012 calendar year, with final construction subject to regulatory approvals. Coal operations are expected to commence in the 2013 financial year, with achievement of nameplate capacity targeted in the 2014 financial year.

## PROJECT HISTORY

The Bowen Basin Coal Joint Venture (85% Macarthur Coal, 15% CITIC Group) took ownership of EPC 676 in March 1998. Previously, limited exploration had been undertaken.

Within the Mining Lease Application (MLA) area for the Codrilla Mine Project (northern part of EPC 676), it has identified coal resources totalling 79.5Mt<sup>1</sup> and reserves of 50.0Mt<sup>1</sup> in a synclinal u-shaped deposit within

the Leichhardt and Upper Vermont seams. Detailed mine planning has determined a mine life of approximately 16 years.

Concurrent with the Company's selection of Codrilla as its fourth mine project, the Bowen Basin Coal Joint Venture (BBCJV) transferred ownership to the Coppabella and Moorvale Joint Venture (CMJV). This required a selldown of Macarthur's interests in the project from 85% in the BBCJV to a 73.3% interest in the CMJV for \$74.88 million.

## ENVIRONMENTAL IMPACT STATEMENT PROGRESSED

Public consultation began in 2009 with community forums at Valkyrie State School and Nebo Memorial Hall in the lead up to the Environmental Impact Statement (EIS) process. Field studies were conducted on flora and fauna, soil and overburden, surface water and groundwater, air, noise and vibration, traffic, social and economic impacts. The initial EIS for Codrilla was submitted to the Department of Environment and Resource Management (DERM) in September 2010. Government agency and community information sessions followed in January 2011. Concerns raised during the progression of the EIS included the impacts on noise, air, water and the relocation of the Valkyrie State School.

To mitigate the mine's impact on acceptable noise and air levels, Macarthur Coal conducted further modelling and a detailed risk assessment of all findings. In response, it has committed to monitor environmental conditions and adjust activities undertaken during adverse weather conditions.

The Valkyrie School Community Working Group was established in 2009 and consists of representatives from the Department of Education and Training, the Valkyrie State School Parents and Citizens Association, the school principal, environmental consultants working on the EIS and from Macarthur Coal. The group was formed for the specific purpose of keeping the school community updated on project developments and identifying potential impacts on the school, which is currently located approximately two kilometres north of the proposed pit area. The Department of Education and Training will be working with the Valkyrie School Community Working Group to identify a new site for the school to ensure it continues to serve the local community.



Loading core samples at an exploration drill rig – development drilling for coal quality began at Codrilla in June 2011.

<sup>1</sup> Refer to the Resources and Reserves Statement on page 30.



Codrilla's water storage structures and water management practices have been designed to meet all the requirements for a zero release site and to mitigate impacts on groundwater and surface water.

The supplementary EIS was submitted to DERM on 30 June. Pending the final decision by DERM, Macarthur anticipates a draft Environmental Authority to progress the project to Mining Lease status.

**MINE PLANNING COMMENCES**

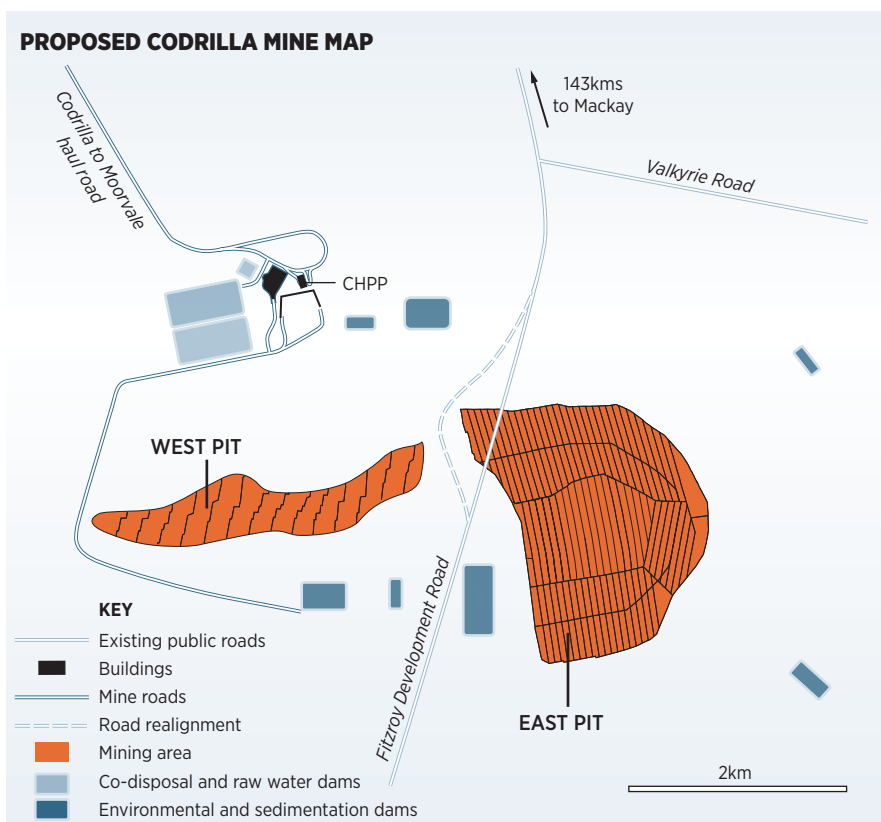
The current mine plan has open-cut truck and excavator mining commencing in East Pit in the 2013 financial year. A combination of drilling, cast blasting, bulk dozing, excavators and haul trucks will remove the overburden.

The proposed raw water supply will be sourced from the Moorvale Mine, as Macarthur Coal has a long term water supply and transport contract from the Burdekin Dam for delivery to Moorvale.

Plans are under development for a Codrilla-to-Moorvale Haul Road and provisions have been made to include a 66kV above ground power line along the length of the haul road to an electrical substation at Codrilla.

Port capacity and rail services have been secured for the Codrilla Mine Project and are ready for operations to begin in the 2013 financial year. Macarthur has an existing 3.7Mtpa rail contract with Pacific National and will assign up to 3.2Mtpa of this to the CMJV to match future production levels from Codrilla. Macarthur also has contracted port capacity at DBCT which it will allocate to the CMJV during the ramp up in production at Codrilla, underpinning the future success of the project.

<b>Joint Venture and Manager</b>	Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd
<b>Macarthur Coal's interest</b>	73.3%
<b>Tenements</b>	EPC 676, MLA 70450, MLA 70455
<b>Location</b>	The Codrilla deposit is located 30km south-east of the existing Moorvale Mine. The Codrilla resource is located 25km south of the intersection of the Peak Downs Highway and the Fitzroy Development Road.
<b>Port</b>	Dalrymple Bay Coal Terminal
<b>Coal types</b>	LV PCI coal (similar to that produced at Coppabella and Moorvale mines) Mined from the Leichhardt seam (1.8 metre average) and Vermont seam (7.8 metre average)
<b>Mining operations</b>	Once operational, coal will be mined using excavators and trucks, with associated drill and blast. Coal processing will be undertaken on-site by a contractor through a 600tph CHPP. Mining and coal preparation activities will be carried out 24 hours per day, seven days per week.



(Indicative proposed map as at 30 June 2011, subject to change.)

# GROWTH PORTFOLIO

## UNDER EVALUATION

PROJECT	MCC INTEREST	OTHER INTERESTS	TARGETED MINE TYPE	TARGETED COAL TYPE	MCC SHARE RESOURCES <sup>1</sup> Mt	MCC SHARE RESERVES <sup>1</sup> Mt	POTENTIAL PORTS <sup>2</sup>	PAGE REF
Olive Downs North	73.3%	7% CITIC Group 7% Marubeni Corporation 7% Sojitz Corporation 3.7% JFE Shoji Trade Corporation 2% Nippon Steel Corporation	Open-cut	LV PCI Coking	93.2	8.5	DBCT / APCT / DP	39
Monto	41%	10% Noble (incorporated joint venture with Macarthur Coal) 49% minority joint venture participants	Open-cut	Thermal	134.6	-	WICET	39
Moorvale Underground	73.3%	7% CITIC Group 7% Marubeni Corporation 7% Sojitz Corporation 3.7% JFE Shoji Trade Corporation 2% Nippon Steel Corporation	Underground	LV PCI Coking	61.5	9.8	DBCT / APCT / DP	39
Moorvale West	90%	10% CITIC Group	Underground	LV PCI Coking	131.3	-	DBCT / APCT / DP	40
Willunga	85%	15% CITIC Group	Open-cut	LV PCI Thermal	270.2	-	WICET / APCT / DP	40

## EXPLORATION/CONCEPT

PROJECT	MCC INTEREST	OTHER INTERESTS	TARGETED MINE TYPE	TARGETED COAL TYPE	MCC SHARE RESOURCES <sup>1</sup> Mt	MCC SHARE RESERVES <sup>1</sup> Mt	POTENTIAL PORTS <sup>2</sup>	PAGE REF
Capricorn	85%	15% CITIC Group	Open-cut Underground	LV PCI Thermal	-	-	WICET	41
Coppabella Underground	73.3%	7% CITIC Group 7% Marubeni Corporation 7% Sojitz Corporation 3.7% JFE Shoji Trade Corporation 2% Nippon Steel Corporation	Underground	LV PCI	The resources and reserves for Coppabella Underground are disclosed together with the resources and reserves for the operating open-cut Coppabella Mine on page 30.		DBCT / APCT / DP	41
Olive Downs South	90%	10% CITIC Group	Open-cut	Coking LV PCI Thermal	244.9	-	DP / APCT / DBCT	42
Vermont East	85%	15% CITIC Group	Open-cut	LV PCI Coking Thermal	152.7	-	WICET / APCT / DP	42
West/North Burton	65%	10% CITIC Group 25% Bowen Basin Exploration	Underground	LV PCI Thermal Coking	-	-	DBCT / APCT / DP	43
West Rolleston	90%	10% CITIC Group	Open-cut	Thermal	332.2	-	WICET	43
West Walker	85%	15% CITIC Group	Open-cut	LV PCI	-	-	DBCT / DP	44
Yeerun	85%	15% CITIC Group	Open-cut	LV PCI	56.1	-	DBCT / APCT / DP	44

1 Refer to the Resources and Reserves Statement on page 30

2 APCT – Abbot Point Coal Terminal, DBCT – Dalrymple Bay Coal Terminal, DP – Dudgeon Point (Proposed Terminal), WICET – Wiggins Island Coal Export Terminal

“Macarthur has a portfolio of high quality production, development and exploration assets in the highly prospective coal basins of Queensland which are not easily replicable.”

Keith DeLacy, Chairman.

## UNDER EVALUATION

### OLIVE DOWNS NORTH

<b>Joint Venture and Manager</b>	Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd
<b>Macarthur Coal's interest</b>	73.3%
<b>Tenements</b>	MLs 70354 and 70355 EPC 649 (north of the Isaac River)
<b>Location</b>	15km south of Moorvale Mine
<b>Potential ports</b>	DBCT/APCT/DP
<b>Coal types</b>	Predominantly LV PCI coal with potential for a proportion of coking coal
<b>2011 activities</b>	Exploration activities continued to further refine the current open-cut resource and to establish the extent of resources north of the existing mining lease (ML70354) within EPC 649 south of current Moorvale Mining operations. Pit optimisation studies were undertaken and mine planning will focus on integrating production with Moorvale to optimise potential coal blending opportunities.
<b>Project status</b>	Currently Olive Downs North is a proposed small scale open-cut satellite mine designed to extend the life of the Moorvale Mine and would use existing infrastructure. The Mining Lease was granted in May 2009. Currently progressing studies to upgrade ML to higher production rate. A mine plan, including detailed design of the haul road to Moorvale's CHPP, has been completed. Exploration continues to support resource definition and an update to the JORC resource is expected in early FY2012.

### MONTO

<b>Joint Venture and Manager</b>	Monto Coal Joint Venture – managed by Monto Coal Pty Ltd
<b>Macarthur Coal's interests</b>	41% via a 80.39% interest in Monto Coal 2 Pty Ltd
<b>Tenements</b>	ML 80101 MDLA 445 MLA 80175 EPCs 613 and 683
<b>Location</b>	120km south-west of Gladstone within the Mulgildie Coal Measures
<b>Potential port</b>	WICET
<b>Coal type</b>	Thermal coal
<b>2011 activities</b>	A detailed exploration programme was curtailed in August 2010 due to wet weather and access restrictions. This programme will recommence in FY2012 in conjunction with other exploration work to support the MDL and ML applications. A Mineral Development Licence Application (MDLA) was submitted in July 2010 and an application to extend the mining area for Stage 1 (MLA 80175) was successful. Macarthur Coal also continued study work for both stages of the project. <b>Stage 1</b> - The pre-feasibility study was revisited and feasibility work optimised accordingly. Contracts were awarded for the drilling of water and monitoring bores. <b>Stage 2</b> - The pre-feasibility study continued and mine planning options were evaluated. Baseline studies for the EIS commenced.
<b>Project status</b>	A mining lease for Monto Stage 1 was granted in 2005 for production of up to 1.5Mtpa ROM coal. A formal application and supporting documents have been lodged with WICET to secure capacity in the Stage 2 expansion scheduled for completion in 2015.

### MOORVALE UNDERGROUND

<b>Joint Venture and Manager</b>	Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd
<b>Macarthur Coal's interest</b>	73.3%
<b>Tenements</b>	MLs 70290 and 70291
<b>Location</b>	Immediately north-west of Moorvale Mine
<b>Potential ports</b>	DBCT/APCT/DP
<b>Coal types</b>	LV PCI coal and coking coal
<b>2011 activities</b>	No exploration activities were required in 2011 as development options are being revisited in consideration of an additional strip at the open-cut Moorvale Mine.
<b>Project status</b>	Moorvale Underground is currently considered either an extension to the mine life of the open cut Moorvale Mine, or as a new mine development in support of additional port capacity. The mine is likely to be a bord and pillar operation with direct entry from the high wall of the open-cut mine, or from an independent entry for the greenfield option. Production capacity is estimated at up to 1.0Mtpa ROM coal. Optimising the mining operation has the potential to enable a higher coking coal fraction to be produced from the ROM coal.

# UNDER EVALUATION

## MOORVALE WEST

<b>Joint Venture and Manager</b>	Moorvale West Joint Venture – managed by Moorvale West Coal Pty Ltd
<b>Macarthur Coal’s interest</b>	90%
<b>Tenement</b>	EPC 680 (2 sub-blocks within EPC 649)
<b>Location</b>	The Moorvale West deposit is located approximately 8km south west of the existing Moorvale Mine and 15km south of the Coppabella township. The deposit is immediately adjacent to the Peak Downs railway line on freehold land.
<b>Potential ports</b>	DBCT/APCT/DP
<b>Coal types</b>	LV PCI coal and coking coal.
<b>2011 activities</b>	A concept level bord and pillar mining study was completed.
<b>Project status</b>	Macarthur Coal is reviewing its options and a pre-feasibility study will be commissioned to assess development options for Moorvale West. The seam’s subcrop is next to the Peak Downs rail line which allows drift entry and access to coal at less than 100m depth. If small-scale, Moorvale West could potentially utilise Moorvale Mine infrastructure.



**Grading roads at Moorvale Mine** – maintaining road conditions is crucial to improving safety, productivity and tyre life. The focus on road maintenance was heightened during recent wet weather.

## WILLUNGA

<b>Joint Venture and Manager</b>	Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd
<b>Macarthur Coal’s interest</b>	85%
<b>Tenements</b>	EPCs 721 and 688
<b>Locations</b>	Vermont East and Willunga are adjacent prospects located 40km south of the Moorvale Mine. The Willunga and Vermont East prospects are geologically distinct grassroots prospects at the southern end of the Coxendean Sub-basin. The prospects are separated by the Isaac River and lay either side of a major fault system with Willunga to the east of the river.
<b>Potential ports</b>	WICET/APCT/DP
<b>Coal types</b>	The Willunga exploration area is anticipated to produce LV PCI and thermal coal.
<b>2011 activities</b>	The JORC resources for Vermont East/Willunga were upgraded from 164.6Mt to 497.6Mt in May 2011, following completion of coal quality testing and analysis in December 2010. Refer to the Resources and Reserves Statement on page 30. The pre-feasibility study for Willunga, which considered multiple tonnage options was completed and work has commenced on the associated Environmental Impact Statement and port capacity applications. Formal application and supporting documents have been lodged with WICET to secure capacity in the WICET Stage 2 expansion that is scheduled for completion in 2015.
<b>Project status</b>	Willunga is an S-shaped deposit and, combined with Vermont East, covers a target area of over 110km <sup>2</sup> , both with open-cut potential. Product analysis indicates that low volatile PCI coal will be the primary product. A pre-feasibility study has been completed.

# EXPLORATION/CONCEPT

## CAPRICORN

<b>Joint Venture and Manager</b>	Capricorn Joint Venture – managed by Capricorn Coal Pty Ltd
<b>Macarthur Coal's interest</b>	85%
<b>Tenements</b>	EPC 769
<b>Location</b>	North-east of the town of Dingo
<b>Potential port</b>	WICET expansion
<b>Coal types</b>	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 either a thermal or a PCI coal.
<b>2011 activities</b>	Site access was affected by the extended wet season. Scheduled exploration drilling for a number of areas previously identified for further investigation will be undertaken during FY2012.
<b>Project status</b>	Capricorn has coal seam depths that may prove suitable for both open-cut and/or underground extraction. The coal occurrences are adjacent to the Blackwater-to-Gladstone rail line. They have been outlined and identified through two dimensional seismic surveys and more than 50 company and non-company open holes over an elongated, segmented target area of 146km <sup>2</sup> . Exploration continues to support resource definition with the aim to target areas with greater commercial mining potential.

## COPPABELLA UNDERGROUND

<b>Joint Venture and Manager</b>	Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd
<b>Macarthur Coal's interest</b>	73.3%
<b>Tenements</b>	MLs 70164, 70236, EPC 531 MLAs 70384, 70385, 70386, 70387
<b>Location</b>	Southwest of Mackay and to the north of the existing Coppabella open-cut mine.
<b>Potential ports</b>	DBCT/APCT/DP
<b>Coal type</b>	LV PCI coal
<b>2011 activities</b>	Some exploration took place with significant increase in drilling planned for FY2012.
<b>Project status</b>	A draft concept study has been completed with two dimensional seismic data extending north of Creek Pit at Coppabella, and down-dip from nearby South Walker Creek Mine for approximately 20km, which indicated a potentially large shallow underground mining area for further targeted exploration. Some faulting exists and the mine layout will be adjusted to optimise any future mine planning. An exploration drilling programme will continue in FY2012 to support resource definition within EPC 531 (north of the Coppabella mining leases) and establish a JORC Resource <sup>1</sup> .

<sup>1</sup> The resources and reserves for Coppabella Underground are disclosed together with the resources and reserves for the operating open-cut Coppabella Mine in the Resources and Reserves Statement on page 30.

# EXPLORATION/CONCEPT

## OLIVE DOWNS SOUTH

<b>Joint Venture and Manager</b>	Olive Downs South Joint Venture – managed by Olive Downs Coal Pty Ltd
<b>Macarthur Coal’s interest</b>	90%
<b>Tenements</b>	EPC 649 (south of the Isaac River), part of EPCs 676, 721 and 850
<b>Location</b>	25km south of Moorvale Mine
<b>Potential ports</b>	DP/APCT/DBCT
<b>Coal types</b>	Coking coal, LV PCI coal and high energy thermal coal.
<b>2011 activities</b>	Exploration drilling was undertaken but access was restricted due to wet weather. The area will continue to be a focal point of exploration during FY2012.
<b>Project status</b>	Olive Downs South is a high priority exploration area due to the prospect of good quality coking coal lying immediately to the south of the existing Olive Downs North Mining Lease area. A large-scale exploration drilling program has been designed and on completion concept studies for open-cut and potential underground will follow.

## VERMONT EAST

<b>Joint Venture and Manager</b>	Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd
<b>Macarthur Coal’s interest</b>	85%
<b>Tenements</b>	EPCs 850, 721 and 688
<b>Locations</b>	Vermont East and Willunga are adjacent prospects located 40km south of the Moorvale Mine. The Willunga and Vermont East prospects are geologically distinct grassroots prospects at the southern end of the Coxendean Sub-basin. The prospects are separated by the Isaac River and lay either side of a major fault system with Vermont East to the west of the river.
<b>Potential ports</b>	WICET/APCT/DP
<b>Coal types</b>	Initial results for Vermont East indicate the possible presence of a medium volatile coking coal as well as thermal and PCI coal.
<b>2011 activities</b>	The JORC resources for Vermont East/Willunga were upgraded from 164.6Mt to 497.6Mt in May 2011 following completion of coal quality testing and analysis in December 2010. Refer to the Resources and Reserves Statement on page 30.
<b>Project status</b>	Studies are being undertaken to assess the viability of Vermont East as either a life of mine extension for the proposed Willunga mine project or as an independent mine. Vermont East adjoins the Willunga prospect and contains a number of fault repeated crop zones of the Rangal Coal Measures. Given the resource quantity, Vermont East has potential for larger-scale open-cut operations.



**WEST/NORTH BURTON**

<b>Joint Venture and Manager</b>	West/North Burton Joint Venture – managed by West Burton Coal Pty Ltd
<b>Macarthur Coal’s interest</b>	65%
<b>Tenements</b>	EPCs 682, 708, 1115 and 836
<b>Location</b>	50km north-west of Coppabella Mine, west and north of Burton Mine and east of North Goonyella Mine.
<b>Potential ports</b>	DBCT/APCT/DP
<b>Coal types</b>	The West/North Burton prospect may be a source of low to medium volatile coking coal, PCI coal and thermal coal from the Rangal Coal Measures and premium hard coking coal from the Moranbah Coal Measures at depth.
<b>2011 activities</b>	Exploration drilling commenced to establish potential underground resources in both the Rangal Coal Measures and Moranbah Coal Measures. A range of options for development are in the early stages of being assessed.
<b>Project status</b>	West/North Burton has prospects for underground resources. Further drilling is required to establish a JORC resource and to determine the hard coking coal potential of the Moranbah Coal Measures.

**WEST ROLLESTON**

<b>Joint Venture and Manager</b>	West Rolleston Joint Venture – managed by West Rolleston Coal Pty Ltd
<b>Macarthur Coal’s interest</b>	90%
<b>Tenements</b>	EPCs 786, 781, 833, 856, 871 and 896
<b>Location</b>	40km south of Springsure in central Queensland and 25km west of Rolleston Mine.
<b>Potential port</b>	WICET expansion
<b>Coal types</b>	Thermal coal
<b>2011 activities</b>	Exploration activities were delayed by wet weather and limited access. In May 2011, the JORC resources for Freitag Creek, Deepdale and Mt Ogg (EPCs 786, 871 and 896) were upgraded from 80Mt to 369Mt. Refer to the Resources and Reserves Statement on page 30.
<b>Project status</b>	West Rolleston is an open-cut thermal coal resource and remains under early evaluation pending further definition and optimisation of potential mining areas. Exploration will continue to support resource definition, with proven lateral seam continuity from Freitag Creek through Deepdale and Mt Ogg. Application and supporting documents have been lodged with WICET to secure port capacity in Stage 2.

**PCI coal bound for DBCT** – A fully-laden Pacific National train loaded with approximately 10,000 tonnes of ‘Coppabella PCI’ departing from the mine’s load-out facility in June 2011.



# EXPLORATION/CONCEPT

## WEST WALKER

<b>Joint Venture and Manager</b>	West Walker Joint Venture – managed by West Walker Coal Pty Ltd
<b>Macarthur Coal’s interest</b>	85%
<b>Tenements</b>	EPCs 657, 666, 757 and 712
<b>Location</b>	Adjoining Coppabella Mine tenements to the north.
<b>Potential port</b>	DBCT/DP
<b>Coal types</b>	LV PCI coal similar in quality to the LV PCI coal at Coppabella Mine.
<b>2011 activities</b>	Additional evaluation studies were completed and have provided target areas for slim-core and open-hole drilling to establish a JORC Resource along strike from EPC 531.
<b>Project status</b>	West Walker is still a relatively low priority prospect area and is considered to be a potential extension of the Coppabella resource area. This prospect has an elongated target area of 36km <sup>2</sup> and studies have identified the potential for underground resources. Exploration will continue to support resource definition with drilling activities scheduled to re-commence in FY2012.

## YEERUN

<b>Joint Venture and Manager</b>	Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd
<b>Macarthur Coal’s interest</b>	85%
<b>Tenements</b>	EPC 676
<b>Location</b>	20km south-east of the existing Moorvale Mine and adjacent to the Codrilla Mine Project
<b>Potential port</b>	DBCT/APCT/DP
<b>Coal types</b>	It is inferred from the coal type is LV PCI coal similar in quality to the LV PCI coal at Coppabella Mine.
<b>2011 activities</b>	Exploration activities identified and defined of an inferred resource of 66Mt within EPC676. Refer to the Resources and Reserves Table on page 30. Following consultation with traditional land owners, the Barada Barna People, the Joint Venturers named the deposit Yeerun.
<b>Project status</b>	Exploration continues to support further resource definition.

**Blue skies allow rehabilitation to get underway** – Hay mulch helps to reduce erosion on an area recently planted with native grass and tree seeds at Moorvale Mine, with the out-of-pit dumps in the background.





# SUSTAINABILITY



# ENVIRONMENTAL RESPONSIBILITY

Macarthur Coal is progressively implementing leading practice environmental management systems to eliminate, mitigate or remediate the environmental impacts of the Company's activities.

The Company is committed to its corporate value of talking straight about its environmental performance with its neighbours, traditional owners, local communities and government.

Since the 2008 floods, Macarthur has invested approximately \$11 million on water infrastructure at Coppabella and Moorvale, and this level of financial commitment will continue, as the Company prepares to "weather-proof" its sites.

## 2011 PERFORMANCE WATER MANAGEMENT

In the lead up to the 2010-2011 wet season, Macarthur increased its water storage capabilities and on-site water usage at its mines in order to meet the non-release conditions introduced by the Queensland Government in November 2009. See the case study on page 47 for more information.

Despite the Company's proactive efforts, the extreme flood and rainfall events over the summer months, meant that Macarthur Coal along with 16-20' other mines in Queensland's Bowen Basin, made non-compliant water releases. See page 16 for the rainfall chart.

The sheer volume and intensity of the record rains resulted in unprecedented water run-off from both of Macarthur's operating mines. The Company reported to DERM, two non-compliant water releases from Moorvale and three from Coppabella. Based on DERM's assessment of the severity of the releases, no penalties were recorded.

Macarthur is committed to working with DERM representatives as part of its open and transparent communications on water management. Water run-off at the Middlemount Mine Project was successfully managed and no non-compliances were reported.

Armed with the latest leading practice information and internal expertise gained from managing the recent extreme weather



**Improving water management** – Macarthur Coal has been trialling alternative evaporation methods suitable for mine application such as this Aston Evaporator being used on Sediment Dam 2 at Moorvale Mine.

events, Macarthur is implementing more comprehensive Life of Mine – Water Management Plans for Coppabella and Moorvale. These plans are designed to "weather-proof" the sites and management recognises their progressive implementation will require time, additional significant capital and operational commitment. See the case study on page 47 for more information.

## REHABILITATION

Macarthur Coal's mine sites undertake rehabilitation as soon as practicable after disturbance occurs. The Company defines successful rehabilitation as returning the mined land to an agreed land use capability, to subsequently minimise erosion, improve water run-off quality and provide ecological diversity.

All rehabilitation is monitored on a regular basis to assess its effectiveness through the Ecosystem Function Analysis. This technique measures elements such as nutrient cycling, the amount of vegetative matter that is deposited over time, and the colonisation by insects, ants and other fauna. As at 30 June 2011, the total area under rehabilitation at Coppabella is 321ha and at Moorvale there is 153ha. Early results of this work indicate that the ecosystems in the rehabilitated areas are robust and diverse.

In FY2011, access and planting restrictions due to record rainfall meant only 13ha of land was newly rehabilitated at Moorvale and no hectares at Coppabella, below the Company target of 65ha. To compensate for this, Macarthur has more than doubled its target for FY2012 to 117ha across both sites. Rehabilitation work at Middlemount is scheduled to commence in FY2015.

The environmental specialists at Coppabella will trial a new rehabilitation technique in FY2012 to address the mine's dispersive spoils. The spoils are created as a result of removing overburden from above the coal. Successful rehabilitation must be safe and stable, so the team is proactively investigating options to minimise slope length and gradient of the spoils.

## WASTE MANAGEMENT

Waste management activities undertaken in FY2011 were in compliance with Macarthur's approved Waste Management Plan. All waste from mining operations is removed by a registered contractor with suitable material recycled and the remainder disposed of in a responsible manner.

Specific recycling programs have been established for office waste, such as paper and ink cartridges.

By focusing progressively on waste avoidance, reduction, recycling and disposal, Macarthur is adhering to waste hierarchy principles and minimising potential impacts on the health of surrounding communities and ecologies.

## GOVERNANCE AND REPORTING

### EXTERNAL ACTIVITIES

Environmental management on the mine sites is predominantly legislated under the *Environment Protection Act 1994* and regulated by DERM. Each mine must have an Environment Authority (EA), which clearly sets out its specific compliance requirements.

To demonstrate EA compliance, each mine is required to provide DERM with Annual Returns, Plans of Operations and

an Environmental Management Plan. Each of Macarthur's operating mines undertakes extensive environmental monitoring as evidence of EA compliance and to facilitate early identification of potential issues requiring specific management. Monitoring results are made available to DERM and, when applicable, to neighbouring landholders.

In line with Macarthur's commitment to talk straight and consult with its stakeholders, the Company has formalised more regular and structured communication channels with the community. In FY2011 this initiative included neighbouring landholder site visits with associated meetings, and organised site visits from the Mackay Rural Producers' Society and the Pioneer State High School. The Company has also proactively and successfully resolved an informal concern raised by a neighbouring landholder seeking more information about fire management and burn-off activities at Moorvale.

Apart from the water releases associated with record rainfall, there were no other environmental incidents or non-compliances reported in FY2011 and there were no formal complaints made about Macarthur's operating and developing mines.

Other regulatory reporting includes the National Pollutant Inventory and National Greenhouse and Energy Reporting Scheme (NGERS). See page 50 for more information NGERS.

#### INTERNAL ACTIVITIES

Macarthur Coal's strategic goal for environmental management is zero non-compliance and the Company has recently increased its resources and internal environmental governance capabilities. In FY2011, the number of environmental specialist roles was increased from four to nine, with four based in Brisbane and five operating across the three existing mine sites.

Formal internal reporting includes a monthly Environmental Report to the

Board, highlighting progressive actions and tracking performance measures. To reflect Macarthur's increasing presence as an owner-operator, a Company-wide Strategic Environment Plan has been recently developed to standardise activities and reporting across all sites.

In addition to the Company-wide Carbon and Environment Committee established in 2009, this financial year saw the creation of a dedicated Site Environment Committee to increase awareness and focus on environmental issues across operations.

All Macarthur Coal employees and contractors undergo site-specific mine inductions outlining the Company's overall environmental responsibilities, with more detailed training provided to those with specific environmental duties.

<sup>1</sup> Refer to Inside Water article by Professor Gary Jones - Chief Executive of eWater Cooperative Research Centre.

## Water-proofing plans delayed by rain

Macarthur Coal is in the process of implementing more comprehensive Life of Mine – Water Management Plans at its Coppabella and Moorvale mines and is considering a range of “weather-proofing” measures to better accommodate both flood and drought conditions.

Since the 2008 floods, Macarthur has focused on a number of initiatives to improve water management at the Coppabella and Moorvale mines.

The Company has:

- **increased water storage capacity** by dredging the Return Water Dam and raising the existing dam walls of Abi Dam, the Environmental Dam and the Sediment Dam
- **minimised rain water run-off entering site storages** by building diversions and levees at Humbug Gully, South and North Arm of 30 Mile Creek and the Environment Dam

- **maximised on-site usage** with road watering, evaporation and re-use through the coal handling and preparation plant
- **disposed of excess water** through compliant discharges
- **tried alternative evaporation methods** suitable for mine application
- **set up automated monitoring systems** to provide for the real-time quality and volume monitoring of significant dams and discharge points
- **pro-actively commenced** Macarthur's Life of Mine – Water Management Plans.

However, three consecutive years of above average rainfall has resulted in on-site dam storage capacity at both sites at or nearing capacity. As at 30 June 2011, the excess water balances from the dams at Moorvale and Coppabella were approximately 3,000ML and

11,000ML respectively, and this is held predominantly in non-operational pits.

In addition to optimising the initiatives mentioned above, some additional options being assessed as part of Macarthur's Life of Mine – Water Management Plans include:

- utilisation of on-site water for irrigation and stock watering
- utilisation of stored water for road or other non-mine construction activities
- the networking of mines to utilise all water management opportunities across all sites.

Macarthur is confident that the progressive implementation of the Life of Mine – Water Management Plans in the coming years will introduce leading management practices, robust enough to withstand extreme weather conditions and ensure all mining operations comply with the Company's environmental obligations.

# MANAGEMENT OF CARBON EMISSIONS

## CARBON STRATEGY

Since 2008 Macarthur Coal has been developing a proactive strategic approach to minimise emissions and reduce energy use. The objective at a policy level is to reduce the Company's carbon footprint and play a part in mitigating global warming.

While Macarthur Coal representatives were forthright in providing information to government about the impacts of the proposed carbon tax, the Company's strategy is not simply focused on the legislative agenda. It has three principle elements designed to achieve measurable economic and environmental outcomes, namely:

- measuring the carbon footprint and the cost of CO<sub>2</sub>-e emissions and reporting on the strategy to create certainty for shareholders

- acting to manage and reduce emissions and increase efficiency
- participating in the public policy process to influence carbon legislation.

## CARBON FOOTPRINT

Macarthur's carbon footprint in the 2011 financial year was 372,000 tonnes of carbon dioxide equivalent (CO<sub>2</sub>-e) on a 100% basis. This is less than the 414,303 tonnes of CO<sub>2</sub>-e recorded in the previous year, mainly due to decreased production levels because of rainfall-related delays and disruptions.

The production intensity of Macarthur's mining operations is increasing, though this is masked in the FY2011 results because when lower production levels are recorded, subsequent lower levels of fugitive methane are emitted.

The carbon footprint includes all direct and most indirect CO<sub>2</sub>-e emissions, which include

the carbon dioxide and equivalent gas emissions that are produced:

- directly from Macarthur's mines from fuels burned in mining operations and fugitive methane (Scope 1) - (Methane is a natural gas created when coal forms and is released during mining)
- by third parties to deliver utilities and services to Macarthur such as coal-fired electricity (Scope 2)
- by rail transport, port operations, travel, and fuel production (Scope 3).

Macarthur's emissions profile primarily comprises of emissions related to diesel combustion and fugitive methane, followed by electricity and other sources. The emissions reported are almost entirely associated with the Coppabella and Moorvale open-cut mines. As the mines develop and

**Energy efficiency initiatives at Coppabella** – a high-performance excavator coal bucket is expected to reduce the machine's diesel consumption by thousands of litres per annum, see page 50.



“Reducing emissions and protecting shareholder value are more important elements of the carbon strategy than fighting a price on carbon.”

Mick Zeljko, GM – Carbon and Energy.

mining is required at greater depths the relative diesel consumption will increase per unit of saleable product.

Unlike underground mining there are currently no established industry procedures to accurately measure or mitigate the release of fugitive methane during open-cut mining operations. The estimation of fugitive methane releases is currently based on a default factor.

In 2011, Macarthur received a top 25% rating from global institutional investors recognising the Company’s public disclosure of governance, strategy and emissions information as part of the voluntary Carbon Disclosure Project. The Carbon Disclosure Project provides shareholders with greater certainty surrounding respondents’ carbon strategy and management of associated risk.

**COST OF CARBON**

In July 2011, the Federal Government announced details of a fixed price carbon tax commencing on 1 July 2012 to operate for three years before transitioning to a cap and carbon emissions trading scheme. The fixed price will commence at \$23 per tonne of CO<sub>2</sub>-e, indexed at 2.5% in real terms.

Macarthur expects to be directly liable for its fugitive methane emissions under the scheme and will attract the proposed 6 cent per litre reduction in the diesel fuel excise rebate.

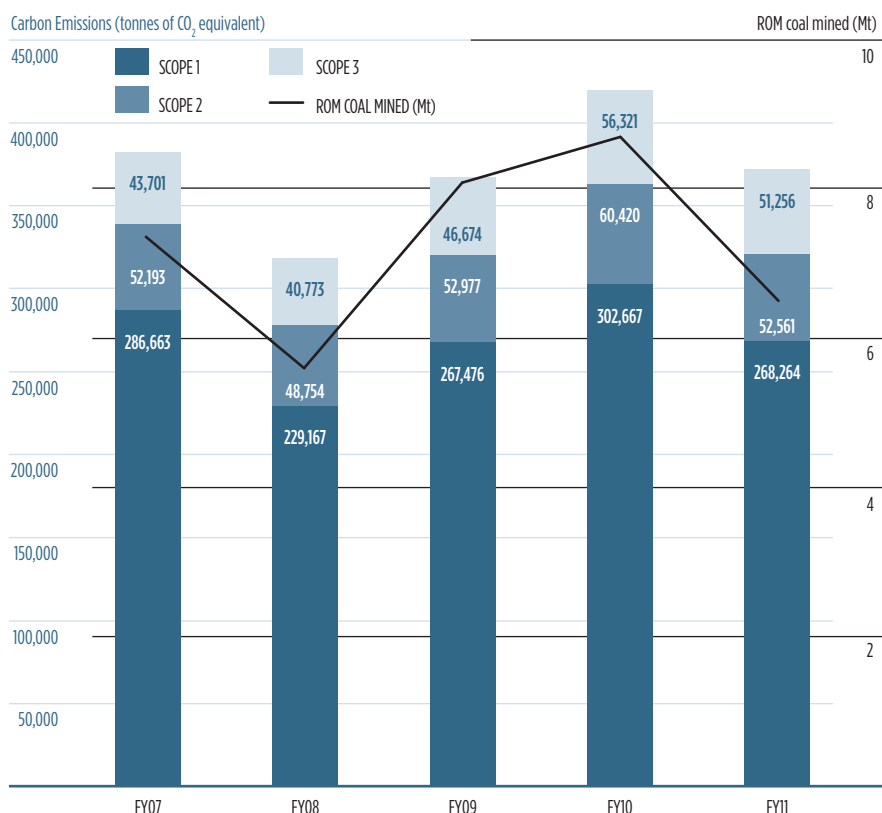
Assuming an emissions intensity of 0.06 tonnes of CO<sub>2</sub>-e per tonne of product coal (reflecting Macarthur’s current emissions intensity for fugitive methane, electricity and diesel) and a fixed price of \$23 per tonne of CO<sub>2</sub>-e, the Company has estimated a carbon price impact of approximately \$1.40 per tonne of coal on fugitive methane and

diesel and electricity consumption. Port and rail operations are expected to attract an additional pass through of carbon costs. The above estimation is dependent on a number of variables and subject to change in accordance with future project parameters.

A \$1.26 billion coal assistance package was also announced, however, Macarthur is not eligible for funding under this program. The Company will consider seeking funding for fugitive methane abatement under the \$70 million Coal Mining Abatement Technology Support Package.

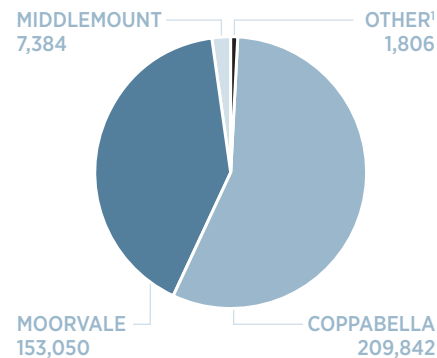
In order to manage the impacts of the carbon price, Macarthur will continue to analyse, evaluate and report energy consumption and carbon emissions, investigate and implement cost-effective energy efficiency opportunities, and explore prospects to manage methane emissions.

**ANNUAL EMISSIONS TREND (100% BASIS)**

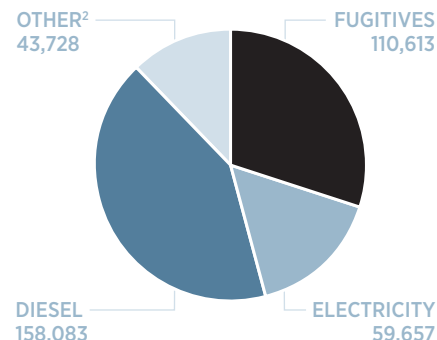


Macarthur’s carbon emissions were lower in FY2011 mainly due to decreased production levels because of rainfall related delays and disruptions. As shown above, there is direct correlation between tonnes of ROM coal mined and emission levels.

**2011 EMISSIONS BY SITE (100% BASIS)**



**2011 EMISSIONS BY SOURCE (100% BASIS)**



- 1 Includes corporate offices, exploration activities and accommodation.
- 2 Includes Scope 3 emissions related to port and rail activities and other incidental sources.

# MANAGEMENT OF CARBON EMISSIONS CONTINUED

## ACTION TO MANAGE AND REDUCE EMISSIONS AND INCREASE EFFICIENCY

Macarthur has undertaken the following direct action and reporting activities in FY2011 to reduce emissions and increase efficiency to offset the cost of a carbon price:

1. Implementation of energy efficiency initiatives including efficient lighting plant with automatic start/stop, automatic lighting controls for key buildings and a high performance excavator coal bucket, which collectively are expected to reduce diesel consumption by over 50,000 litres per annum.
2. Investigation of 17 significant energy saving actions at the Moorvale Mine, including improvement of the mine's power factor, potentially saving up to 5% of the site's electricity consumption.
3. Investigation of 29 opportunities to reduce energy use at Coppabella Mine.
4. Refinement of systems and processes for the measurement and reporting of greenhouse gas emissions and energy consumption.
5. Participation in the Australian Coal Association program of research into clean coal technology (ACARP).
6. Reporting 2010 energy consumption, energy production, and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007 (Cth) (NGERS)*.
7. Completing energy efficiency assessments for the Coppabella and Moorvale mine sites under the *Energy Efficiency Opportunities Act 2006 (Cth)*.
8. Submitting the first department and public energy efficiency reports under the *Energy Efficiency Opportunities Act 2006 (Cth)*.

## ENGAGING WITH GOVERNMENT TO SHAPE CARBON POLICY

Through direct representation to government and through its participation in peak industry representation such as the Australian Coal Association and Queensland Resources Council, Macarthur has sought to inform its own actions and strategy on carbon costing and emissions reduction, and thereby provide greater certainty to shareholders around the impact of carbon pricing legislation.

In May 2011, the CEO and Managing Director Nicole Hollows made representations to the Prime Minister's representatives, the Minister for Resources and Energy and the Minister for Climate Change and Energy Efficiency.

The outcomes advocated to the Government were:

- Realistic targets that achieve real emission reductions - an increased price of Australian metallurgical coal may result in offshore customers switching to less expensive but more carbon intensive alternatives, resulting in a perverse outcome from the legislation and an increase in global emissions.
- Full reimbursement of the direct carbon impost on export products until the global market adopted similar carbon reduction strategies.
- Minimisation of the cost impact on the Australian economy - with the introduction of regulation that was broad in coverage, simple for compliance, had predictable outcomes and included support and transitional measures for industry.

The issues specific to supporting Macarthur's case for some exceptional consideration within the carbon pricing regime are summarised below.

### Taxing Macarthur Coal would give higher emitting producers that market share

With a carbon price Macarthur will face a financial impost that its international competitors currently do not. This will create an additional vulnerability for Macarthur products in a globally competitive market.

Increasing the cost of production (through the introduction of a carbon price) for Macarthur will be counter-productive to the objectives of global emissions reduction. Substituting Macarthur's product within world markets, particularly the growing Asian markets, with coal not subject to a carbon price, for example from the USA, would produce greater levels of Scope 3 emissions to transport the coal - from these more distant suppliers.

### Low Volatile PCI Coal is an effective lower emission substitute for coking coal

Macarthur's principal product - low volatile pulverised coal injection (LV PCI) coal - is used

by the world's steel makers because it enhances furnace productivity and lowers costs by reducing the requirements for hard coking coal.

Internal research suggests that 1.0t of 'Coppabella PCI' can replace 1.3t of the more expensive hard coking coal during the steel making process and this substitution may save the equivalent of up to 0.5t CO<sub>2</sub>-e emissions through avoided coke oven emissions.

To extrapolate this, of the 3.3Mt of LV PCI coal Macarthur sold to steel makers in FY2011, as a supplement to coking coal it would have reduced CO<sub>2</sub>-e emissions by 1.7Mt.

### Queensland coal mines have the liability for fugitive methane, but no rights to commercialise fugitive gas emissions

Under Queensland legislation, the mineral rights for a tenement are held separately from the petroleum rights. This phenomenon of overlapping tenure precludes mining companies from commercialising the extraction of fugitive gas. The liability for fugitive emissions, however, is borne by the mining company.

Macarthur has lobbied for the inclusion of open-cut coal mines as eligible candidates for government subsidies to fund the development of innovative measures to deal with fugitive gas.

## POLICY DEVELOPMENT

Carbon, energy and climate change are explicitly defined under Macarthur's stated strategic objective of operational excellence. The newly appointed General Manager - Carbon and Energy has instituted a number of company policies, strategies and plans to advance Macarthur's commitment to be proactive in the minimisation of emissions and reduction of energy use. The documents include:

- Climate Change Policy
- Energy Management Policy, Standard, and Action Plan
- Greenhouse Gas Emissions Abatement Strategy
- Fugitive Emissions Strategy
- Carbon Pricing Policy.

Disclaimer: The emissions figures provided in this Annual Report were verified internally and correct at the time of printing. NGERS figures will be finalised in October 2011 and may vary slightly as more data becomes available.

# PEOPLE



# RESOURCING FOR THE FUTURE

The unprecedented growth in Australia's mining sector, coupled with the current skills shortage, creates a challenge for employers to attract and retain a capable workforce.

In the 2011 financial year, Macarthur Coal maintained its reputation as a preferred employer, retaining skilled and dedicated people at rates well above some of its industry peers. Macarthur will look to draw on this advantage to attract new employees in this competitive environment as it pursues its sustainable growth objective.

The Company has more than 900 employees and contractors and boasts a 90% retention rate and 76% employee engagement rate.

## 2011 PERFORMANCE

### RECRUITMENT IN THE SPOTLIGHT

Successful recruitment strategies have led to a 206% increase in the Company's direct employee numbers since 2007, from 148 to 454, supported by the Coppabella Mine transitioning to owner-operator.

In the 2011 financial year, Macarthur's strategic human resources planning focused on recruiting people in disciplines to support

project development, specifically for its fourth mine project – Codrilla, and to progress evaluation of growth opportunities beyond 2014. This investment will continue to be crucial for the ongoing evaluation and development of the Company's tenement portfolio in a sustainable and profitable manner.

A recent labour force outlook for the minerals sector predicted a shortfall of 70,000 (15,000 in Queensland) by 2015, with the largest shortfall projected for trades and semi-skilled employees<sup>1</sup>. It is also evident that the demand for talented technical recruits, such as engineers, metallurgists and geoscientists is greater than ever, yet the pool of adept graduates emerging from universities is insufficient.

Macarthur has supported mining engineering scholarships with the University of Queensland for the past four years. In 2011 two students, Nicolas Butel and Guy Clever, were awarded scholarships worth \$30,000 to support their final three years of engineering degrees and their goals of working in the mining industry. They will also be given the opportunity to undertake vacation work at Macarthur.

Increased competition for potential candidates has put upward pressure on salaries and salary expectations from candidates, compared with their predecessors, which will impact on overall mining costs. The imbalance between talent supply and demand means Macarthur's ability to attract and retain skilled people is paramount. The Company's Human Capital Strategy is being implemented to differentiate Macarthur from its competitors amidst tight market conditions and is a top priority for the business.

### STRONG EMPLOYEE RETENTION AND ENGAGEMENT

As at 30 June 2011, Macarthur recorded a retention rate of 90% in an industry that, on average, has retention rates of 70-80%. Coupled with Macarthur's improved employee engagement levels of 76%, this underlines the Company's success in valuing its workforce.

<sup>1</sup> Ernst & Young Reports: Attracting workers at the mines and retaining them. Staffing the super cycle: Labour force outlook in the Minerals sector 2005-2015.

Pre-start for Coppabella's B Crew Production.



Maintenance Serviceman Brad Zammit standing in front of an excavator bucket during routine maintenance in the pit at Coppabella Mine.





“The soul of Macarthur over the past 10 years has been the character, resilience and strength of its workforce. We remain committed to the values that make Macarthur Coal a great place to work.”

Keith DeLacy, Chairman.

One way Macarthur ensures it maintains a positive workplace culture, where employees feel respected and valued, is by measuring the Company’s culture and responding to the results.

For the past three years, the Company has conducted detailed research with an Organisational Culture Inventory (OCI) and an Organisational Effectiveness Inventory (OEI). The OCI profiles Macarthur Coal’s culture in terms of the behaviours required to fit in and meet expectations within the organisation. The OEI assesses internal factors and conditions that impact on business performance. The purpose of running both inventories is to determine the difference between the culture Macarthur Coal aspires to and the actual culture that exists.

The results provide an annual assessment of employees’ engagement and satisfaction levels and the results have improved from 51% in December 2008 to 76% in December 2010.

The latest results were released in December 2010 and concluded that employees thought there had been an improvement in development opportunities, communications throughout the business and goal-setting. In addition, people felt relationships received a higher priority and they reported increased levels of motivation and satisfaction.

This is testament to the Company’s decision to focus on the following five areas to improve culture:

- communications and managing change
- celebrating successes
- role clarity to support business strategy
- leadership development and coaching
- team development.

**DEVELOPING FUTURE LEADERS**

Key to growing and maintaining a sustainable business has been Macarthur’s leadership programmes. The Emerging Leadership Program focused on developing the capabilities of first line leaders at the mine sites, while the Future Thinking Leader Program was directed at developing executive capability. Each program was subject to assessment measures

that monitor the impact leaders are having on their teams. This information is used to guide future training and development programs.

**WORKFORCE DISTRIBUTION**

The distribution of employees is largely reflective of current operations, with the majority of Macarthur’s 903 employees and contractors based at the Coppabella Mine. Contractors operate the Coal Handling and Processing Plant (CHPP), while mining operations have been conducted by Macarthur Coal employees since it was converted to owner-operator status in 2008.

The second highest number of employees and contractors is based at Moorvale Mine, where contractors conduct mining and CHPP activities and employees provide management services.

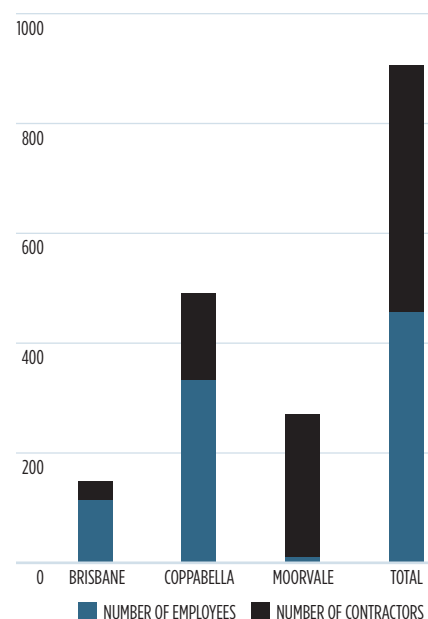
Construction and operational activities at the Middlemount Mine Project, which is in the final stage of development, are currently undertaken by contractors engaged directly by Middlemount Coal Pty Ltd, with staffing levels expected to increase as production commences in the 2012 financial year.

Macarthur also has a dedicated team of employees based in the corporate office in Brisbane to provide management, professional and key support services.

A source of Company pride is Macarthur’s purpose-built accommodation village near the Moorvale Mine. With capacity to house up to 500 employees and contractors a month, Terowie Village fosters a team environment. With its provision of transport to and from Mackay, as well as to the mine site, it is evidence of the priority Macarthur places on effectively managing fatigue and safeguarding the health and well-being of its people.

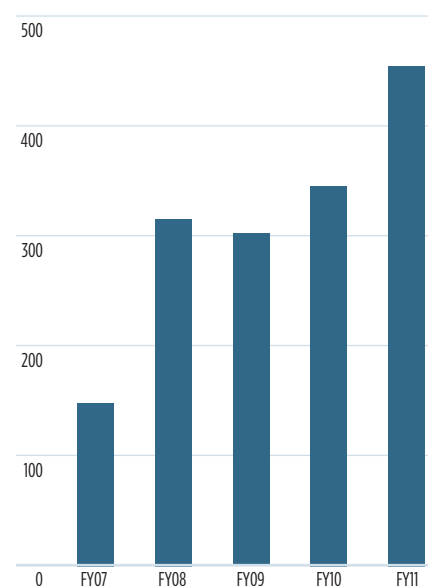
Terowie’s modern facilities including a gym, pool, recreational facilities and dining room, staffed by experienced chefs, bring Macarthur’s employees into a working and living environment which promotes the Company’s value of working together. The success of the village has prompted Macarthur to prioritise employee accommodation options for future projects.

**MACARTHUR COAL EMPLOYEES AND CONTRACTORS 30 JUNE 2011**



Macarthur Coal employs around 900 people as direct employees and contractors at its operating mines and its corporate office in Brisbane.

**MACARTHUR COAL EMPLOYEES FY2007-FY2011**



Successful recruitment strategies have led to a 206% increase in the Company’s direct employee numbers since 2007, from 148 to 454, supported by the Coppabella Mine transitioning to owner-operator.

# VALUING PEOPLE

Macarthur Coal's people are considered its best asset and are valued accordingly. Individual and team contributions go far beyond production outputs and are inherent to the workplace culture. Leaders recognise that nurturing and investing in Macarthur's people will ultimately generate additional wealth for the Company.

Macarthur Coal undertakes regular reviews of its employee benefits as it strives to be an employer of choice in the resources sector. Highlights of Macarthur's employee value proposition include:

- a strong and positive company culture based on the Four Pillars
- an effective leadership team supported by training for future leaders
- attractive remuneration packages
- pay for performance financial rewards
- personal and professional development opportunities
- flexible work practices.

Whilst pay, benefits and career are important, Macarthur believes that employees with a healthy work-life balance are happier, and that this happiness is carried over to performance at work.

The Company provides a range of facilities and services which enable employees, and where appropriate their family members, to achieve optimal health, flexibility and an appropriate balance between work and general lifestyle. These include:

- additional paid parental leave entitlements to those provided by the Australian Government
- a Healthy Bodies Subsidy of \$1,500 a year to cover health, fitness and well-being related services and equipment
- the ability to purchase additional annual leave
- access to an Employee Assistance Program that provides personal and professional counselling services
- part-time and working from home arrangements.

## DIVERSITY POLICY INTRODUCED

To meet the long-term workforce requirements of the mining industry, with its associated skills shortages, it is imperative that Macarthur Coal continues with its initiatives to attract and retain employees with a wide range of characteristics.

Macarthur's proactive approach to workplace diversity involved finalising its Diversity Policy in February 2011, ahead of ASX requirements.

The policy recognises the important contribution that people of diverse backgrounds, experience and cultural association make to the Company and has measurable objectives that it is committed to, including:

- recruitment and selection processes that recognise the value of diversity and result in the recruitment of the best candidate for every role
- provision of professional and development training opportunities
- provision of flexible work and salary arrangements that accommodate family commitments, external study and cultural traditions.

## FEMALE PARTICIPATION STEADY

Macarthur continues to pursue gender diversity and in the 2011 financial year, female participation in Brisbane increased slightly from 47% to 48% and at the mine sites it remained steady at 13%, just one percent below the industry average as measured by the Queensland Resources Council.

Macarthur will be looking at how the percentage of women can be increased throughout the 2012 financial year, as part of a broader effort to boost its workforce.

## INCREASED PAID PARENTAL LEAVE

A policy decision to offer benefits above the statutory requirement for paid parental leave is paying dividends for Macarthur Coal and its employees.

The first round of initiatives was implemented from 1 January 2011 (see page 75 of the Directors' Report). The second round of initiatives became effective as at 1 July 2011

and provides employees with 18 weeks' leave capped at \$100,000, less the Government's paid parental leave scheme entitlement. This means Macarthur will meet the gap between the minimum wage entitlements the Government provides and the employees' standard weekly salary over 18 weeks, up to \$100,000.



**Lisa Andrews** – a senior financial accountant who joined Macarthur's finance team in November 2009, is one of the first employees to take advantage of the paid parental leave entitlements at Macarthur Coal. "The supportive working conditions provided by Macarthur have given me the opportunity to enjoy being a first time mum, while at the same time maintain my professional career," Lisa explains. "Macarthur not only says it values its people but is prepared to invest in its employees and offer them the work life balance that keeps them wanting to give the Company their very best."

# THE FOUR PILLARS

The key to Macarthur's success as one of Queensland's largest publicly listed companies has been adherence to the values that govern the manner in which people behave and the way the Company does business.

Known as the Four Pillars, these values set the Company apart. Macarthur believes the way in which it achieves results is just as important as the results themselves. There is an expectation that key stakeholders, including customers, suppliers and neighbours, should experience the Four Pillars when they interact with the Company.



Value people

People come first and people's safety is the Company's number one priority. Valuing people also means working honestly, ethically and with respect for others at all times both inside and outside of the Company.



Lead the way

Everyone at Macarthur is asked to innovate by looking for new and better ways to get the job done. Leading the way means championing positive change and supporting new ideas that improve the way the Company does business.



Work together

Macarthur is much more than the sum of its parts. The Company has a wealth of experience across a vast range of skill sets and the best results are achieved when these talents are combined and people work together.



Talk straight

Macarthur values the use of plain language and two-way communication. Talking straight means employees can speak up and talk freely - fostering constructive and robust discussions. Listening respectfully and creating opportunities for others to speak is an important part of talking straight.



**High and dry in the city** – Some of Macarthur's finance team continuing with business-as-usual in their temporary office during Brisbane's January floods.

## Employee resilience during flooding

The start of the 2011 calendar year was a challenging time for many Queenslanders, not only did record rainfall impact mining operations, but Macarthur Coal's corporate office was inundated during Brisbane's worst flooding since 1974.

Employee safety was a priority and Macarthur evacuated the office within hours of the Premier's flood warning on the morning of Tuesday 11 January.

On Wednesday 12 January, the ground floor of 100 Melbourne Street in South Brisbane was inundated with 30 centimetres of water and power was cut to the building. Macarthur's network went down which meant that email, a key communication channel, was lost.

Macarthur's Crisis Management Team was exceptional in its response – meeting regularly and keeping employees and key stakeholders informed of developments. Daily updates were provided via text messages, the Company's main telephone line and web site.

A temporary office was set up in Brisbane's CBD from Monday 17 January to accommodate key employees and essential services. After 13 days, the office was given clearance for occupancy and business began to return to normal.

The homes of several Macarthur employees were inundated by the floods and in every instance, colleagues were on hand to assist with the clean-up. Staff at every level of the organisation showed a willingness to go above and beyond in responding to the emergency to ensure business continuity and lend a hand to their friends and neighbours.

# STAKEHOLDER ENGAGEMENT



**Talking straight with farmers and graziers** – In November 2010, 48 members of the Mackay Rural Production Society visited the Coppabella and Moorvale mines for a site inspection and 'talk straight' forum with Macarthur employees, to help them better understand the complexities of mine planning, overburden removal, coal production and processing, transportation and marketing of coal and the associated environmental, social and economic impacts.

Macarthur Coal recognised the importance of open communication and transparent relationships with those influenced by its operations when it moved in the 2011 financial year to a more formalised stakeholder engagement process.

Over the past 10 years Macarthur has prided itself on its frank conversations with stakeholders. A review of that process has outlined a future direction to ensure the values of talking straight and working together are consistently applied in its external engagement activities.

In the 2012 financial year Macarthur will continue to develop its relationships with key stakeholders including shareholders, traditional owners, landholders, neighbouring communities, governments and their associated departments, customers, infrastructure partners, suppliers and the media, in addition to Macarthur Coal's employees and contractors.

Macarthur will progressively adopt the following review recommendations to improve effectiveness and consistency in its stakeholder communication:

- develop a toolkit to identify, value, manage and grow relationships with stakeholders over the life cycle of mine projects

- provide greater clarity and transparency of communication with clear key messages and undertake effective mapping of stakeholder information needs
- improve corporate communication channels to ensure a better understanding of the Company's strategy and value proposition
- continue Macarthur's brand revival strategy to promote strong and positive recognition of the Company
- ensure a continuous flow of information through the Company's web site
- upgrade internal communication capability to support employees and contractors during the changes expected following increased competition for resources in a growing mining sector.

The 2011 financial year highlights of Macarthur's engagement with stakeholders and community include:

- The CEO led representations to governments on behalf of the Company and the metallurgical coal industry on a range of issues including the Minerals Resource Rent Tax, carbon pricing, overlapping tenure and Strategic Cropping Lands.

- Regular engagement was maintained with the Department of Environment and Resource Management about potential non-compliant water releases during record rainfall events, five were reported by Macarthur, however no penalties were recorded.
- Macarthur's Cultural Heritage Coordinator remained in regular contact with Traditional Owners from the 11 Native Title Applicant Groups associated with Macarthur's tenement portfolio and arranged meetings and field inspections where required.
- Formalised engagement was sustained with adjacent landholders to pro-actively discuss Macarthur's current and proposed activities, including the annual site visit from Coppabella and Moorvale's near neighbours.
- Community consultation and public information sessions were held prior to the submission of supplementary Environmental Impact Statement to address concerns raised in relation to the Codrilla Mine Project and the expansion of the Middlemount Mine Project, including direct engagement with Isaac Regional Council.
- The Investor Relations Officer effectively responded to queries from shareholders, potential investors, brokers and analysts arising from quarterly, half-yearly and annual reports, ASX announcements and the Annual General Meeting.
- The Marketing team received commendations directly from customers about its proactive communication and regular updates during its five months under *force majeure*. They made 26 international trips in FY2011 to customers in Europe, Asia, Brazil and India, and their key activities included contact meetings, contract negotiations and also two technical visits by the Company's newly appointed Coal Technologist.
- Regular contributions to the community publication the Nebo News kept the community up to date on mine activities.

# ECONOMIC AND COMMUNITY CONTRIBUTIONS

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 it operates.

In 2011 Macarthur Coal spent:

- over \$64.9 million in salaries, wages and superannuation to its employees (excluding contractors, on a 100% project basis)
- \$121.6 million in dividends to shareholders
- \$104.0 million in company tax to the Australian Government
- \$68.2 million in royalties to the Queensland Government (on a 100% joint venture basis).

Under Queensland Government regulations, a royalty of 7% (and up to 10% for coal sales valued above \$100 per tonne) is payable on all Macarthur Coal's revenue. The royalty amount is based on the AUD sales price less port costs.

The Company also made a substantial contribution to the local communities in which it operates through the purchase of services and supplies as well as through donations and sponsorships. 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.

For more information about Macarthur's contributions see page 58.

## Boosting employees' support of men's health

Macarthur is committed to the health, wellbeing and safety of its employees and this year, several of its community initiatives have been driven by employees' involvement and their own individual fundraising.

Employees at the Coppabella Mine helped raise awareness about the importance of early cancer detection by taking up the Cancer Council Queensland's "Blue Challenge." They painted its new dragline bucket blue and emblazoned it with the words "FINDING CANCER EARLY IN MEN", supporting the fight to improve survival rates amongst rural and regional men. The blue bucket was the brainchild of Coppabella Mine employee Noel Brookfield (pictured below) and was built by CQMS Razer with Sun City Signs painting it at no cost. Macarthur matched employee contributions to a raffle held to raise additional funds.

In November 2010, Macarthur Coal supported "Movember" with a \$20,000 donation in addition to the \$23,361 raised by employees at the mine sites and in Brisbane. Almost as impressive as the moustaches seen on site and in the corporate office, Macarthur was the highest ranking mining company in Australia for the event and donations will be put to good use in the fight against prostate cancer (Prostate Cancer Foundation of Australia) and in supporting those who suffer from depression (Beyond Blue).



# ECONOMIC AND COMMUNITY CONTRIBUTIONS CONTINUED

After 10 years' dedication to establishing long-term community partnerships in Queensland, Macarthur Coal was pleased to be among the first to lend support to those affected by widespread flooding over summer 2010-2011.

On New Year's Day, a donation of \$250,000 was pledged to the Premier's Flood Relief Appeal to directly assist thousands of flood-affected families and businesses.

This immediate response was made possible by Macarthur's long-established sponsorships and donations program.

The program began in 2001 and has a tradition of giving back to local communities by investing in projects and schemes that have real benefits for the people living and working alongside Macarthur's operations.

The primary objective of the program is to demonstrate Macarthur's commitment to being a fair and responsible corporate citizen, by actively contributing to communities impacted by mining.

Apart from Macarthur's state-wide contribution to the flood appeal, the Company's donations focus on making a difference nationally by contributing locally.

## COMMUNITY

Community programs and events supported by Macarthur in the 2011 financial year included:

- the RACQ Central Queensland Rescue Helicopter Service which performed 190 rescues for the year
- Nebo's community newspaper Nebo News, supported by Macarthur since 2004 in recognition of its contribution to connecting local residents and businesses
- contribution to playgrounds at Coppabella State School to support the involvement of students in a safe, healthy and active lifestyle
- the Nebo Bushman's Carnival – including its annual rodeo, campdrafting and cutting events
- the Brigalow Athletics Carnival – a regional sporting event bringing together six Bowen Basin schools
- Yalari – a not-for-profit organisation dedicated to providing educational opportunities for Indigenous children in communities throughout Australia

- Macarthur also gives priority to investing in projects supported by its customers. In FY2011 Macarthur made a further three-year commitment to support BOM Pasteur, a Brazilian organisation that provides specialised drug rehabilitation services to local communities. Macarthur has supported the work of BOM Pasteur since 2004.

## EDUCATION

One way Macarthur is addressing the skills shortage in the mining sector is by investing in education initiatives including:

- The Queensland Minerals and Energy Academy's projects, schemes and events aimed at encouraging high school students to make their career in the resources sector.
- Macarthur's Shares for Schools Program where student representatives from six schools and colleges produced reports on topics including corporate governance, ASX listing and corporate sustainability. In return each participating school received \$5,000 in Macarthur shares, while the winning school received a further \$5,000 in shares and one successful student received a direct contribution toward future university costs. This year's winner was Patrick Vincent from Holy Spirit College in Mackay.

**Share traders of the future** – students and teachers involved in Macarthur's Shares for Schools Program travelled from around the state to attend the Company's AGM in October 2010.



## INDUSTRY

Macarthur is committed to making a positive contribution to industry and in FY2011 participated in forums ranging from diversity in the workplace to leadership in mining. The Company's senior executives engaged with a number of stakeholders, including:

- The Bowen Basin Mining Club
- Women in Mining and Resources Queensland
- 2010 Bowen Basin Symposium
- Women in Leadership Australia
- Asia-Pacific Economic Cooperation (APEC)
- Australian Institute of Company Directors.

# LEADERSHIP



# DIRECTORS

## LEADING THE WAY

Enduring leadership and the dedication of Macarthur Coal's people have been hallmarks of Macarthur's 10 years of success.

As Macarthur enters its second decade and faces the next phase of sustainable growth, the Company is committed to being an employer recognised for the way in which it invests in its workforce.

Each year the Board strengthens relationships with its employees and contractors by holding meetings on site.

In June 2011, the Directors met with employees at Coppabella, Moorvale and Middlemount mine sites and toured the infrastructure integral to the distribution of Macarthur's product to port.

Directors inspected operations and heard first-hand reports from site managers and superintendents in relation to safety, mining production, maintenance and the environment.

Directors also had an opportunity to speak informally with employees and contractors at a barbeque hosted at Terowie Village, Macarthur's purpose-built accommodation facility.

Macarthur's Chairman Keith DeLacy summed up the value the Company places in its people:

"The soul of Macarthur over the past 10 years has been the character, resilience and strength of its workforce. As we enter 2012 armed with a balance sheet to grow and expand, we remain committed to the basic values that make Macarthur Coal a great place to work."



### KEITH DELACY

Chairman  
Independent,  
Non-Executive Director

*Hon DLitt, DUniv,  
BA, QDA, FAICD, FAIM*

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 to the Nomination and Remuneration Committee on 13 June 2003.

Keith's appointments to boards of other publicly listed companies include Director of Reef Casino (Reef Corporate Services Limited) from 1999. Keith is also Chairman of Cubbie Group Ltd (subject to Deed of Company Arrangement), Nimrod Resources Limited, Queensland Energy Resources Limited, and Vice-Chairman of COFCO Australia (Top Glory Ltd).

Keith recently retired as Chairman of Queensland Sugar Limited and Trinity Limited. He is Vice-President of the Queensland Division of the Australian Institute of Company Directors.

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

Deputy Chairman  
Independent,  
Non-Executive Director

*BE, MAUSIMM, FAIM, FAICD*

Roger has more than 40 years' experience in the mining industry, including management, marketing, finance and operational roles, as well as being responsible for the development and production of a number of mines.

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 MIM Holdings Limited (1984-1992), CITIC Australia Trading Limited (2002-2009), Energy Brix Corporation (1993-1996), AGD Mining Limited (1999-2004), Macarthur Diamonds Limited (2004-2005), and Copper Resources Corporation Limited (2005-2007).

He was Chairman of Queensland Ores Limited from 2005 to 2009. He has been Investigator Resources Ltd's (formerly Southern Uranium Limited) Chairman since 2007.

In 1989 Roger was made an Officer of the Order of the British Empire for his services to the mining industry. He is an Honorary Life Fellow of the Australian Institute of Management.



### NICOLE HOLLOWS

Chief Executive Officer,  
Managing Director

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

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 has nearly 20 years' experience in the resources sector.

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), which managed 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 (QRC). She was QRC's President from November 2008 to November 2010 and remains a Director.

In her role at Macarthur Coal, 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 is a member of the Trustee Advisors Committee for the Queensland Museum and the Queensland University of Technology CEO Strategy Group for the School of Business. In December 2010 she was appointed to the board of Skills Queensland, a new organisation established to tackle the state's skills shortages.



#### **PETER FORBES**

Independent,  
Non-Executive Director  
*FCPA, FCIS, FAICD, SA Fin*

Peter has more than 30 years' experience in senior financial and corporate management roles, including 14 years as Deputy Chief Executive and Executive General Manager - Equities, for Queensland Investment Corporation, one of Australia's largest wholesale fund managers.

Peter 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 and chairs this Committee.

Peter is a Director of Cubbie Group Ltd (subject to Deed of Company Arrangement) and QIC Private Capital Pty Ltd. He is a member of the Queensland Council of the Australian Institute of Company Directors.



#### **MARTIN KRIEWALDT**

Independent,  
Non-Executive Director  
*BA, LLB (Hons), FAICD*

Martin is one of Queensland's most prominent company directors and was appointed as a Director of Macarthur Coal on 13 October 2008.

Martin was appointed as a member of the Nomination and Remuneration Committee on 18 November 2008. He was appointed to the Audit and Risk Management Committee on 1 November 2010.

Martin's appointments as Director to boards of other publicly listed companies include Oil Search since 2002, Impedimed since 2005 and BrisConnections since 2008.

He was a Director of Suncorp-Metway from 1996 to 2010, serving as Deputy Chairman for six years. Martin was Director at GWA International Limited (1992-2008), Campbell Brothers (2001-2011) and Arana Therapeutics Limited (2003-2007).

An experienced company Director, Martin has served as Chairman and member of a number of Health and Safety, Audit, Remuneration, Risk, Investment and Governance committees. He also brings expertise in a wide range of legal areas including construction law, banking, insurance and mining, having worked as a partner in litigation and commercial law for 25 years at legal firm, Allen Allen & Helmsley (now Allens Arthur Robinson).



#### **TERRY O'REILLY**

Independent,  
Non-Executive Director  
*BCom, MAppFin, MBA,  
FAICD, FAIM, CPA*

Terry has extensive chief executive and senior executive experience in resources and energy both in Australia and internationally.

He has served as Managing Director of Conzinc Asia based in Singapore, Managing Director of Pacific Coal based in Brisbane, and Managing Director of Coal and Allied Industries based in Sydney.

He has served as Chairman of the Australian Coal Association, Dalrymple Bay Coal Terminal, World Coal Institute Promotions Committee, Queensland Coal Operators, the New South Wales Minerals Council, and was President of the Australian Philippines Business Council.

Terry was appointed as a Director of Macarthur Coal on 13 October 2008 and a member of the Audit and Risk Management Committee on 18 November 2008. From 1 November 2010 Terry resigned from the Audit and Risk Management Committee and was appointed to Chair the Nomination and Remuneration Committee.

Since 1 December 2010 Terry has been a Director of Middlemount Coal Pty Ltd. He is a Certified Practising Accountant, a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Management.



#### **CHEN ZENG**

Non-Executive Director  
*BA (Economics),  
M International Finance,  
member Asia Society,  
member Australia China  
Business Council*

Chen has more than 20 years' experience managing a number of business operations and corporate and asset restructures, and has developed several projects for the CITIC and CITIC Australia groups.

Chen was appointed as a Macarthur Coal Director on 23 July 2007 and has served on the Special Projects Committee since 16 August 2007.

Chen is the Executive Chairman 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.

He is also a Director of the China Chamber of Commerce in Australia, and been a Director of Marathon Resources Limited since 2006. Chen was appointed the President and Chief Executive Officer of CITIC Resources Holdings Limited in 2010, after serving as an Executive Director of the Company since 2004.

He is also a Director of CITIC Group. Chen has been a Director of CITIC Australia Trading Limited since 2002 and served as Chairman from 2004 to 2009.

# SENIOR EXECUTIVES



**SCOTT CROGER**

Vice President, Marketing  
*BAppSc, GradDipMgt (Marketing)*

Scott Croger joined Macarthur Coal in January 2005 and has over 16 years' experience in the mining industry. He was appointed Vice President, Marketing in September 2010 and is responsible for the development and execution of the Company's global coal sales and marketing strategies. Previously Scott was responsible for managing sales planning, logistics, market development and customer relationships for Macarthur's Pacific market.

Scott began his career with BHP Billiton and, prior to joining Macarthur Coal, spent time working for a French aluminium company and a Japanese trading company.



**LISA DALTON**

EGM – People & Governance and Company Secretary  
*BAppSc, MAppSc, LLB (Hons), FAICD*

Lisa Dalton joined Macarthur Coal in May 2007, having formerly held the position of Company Secretary at Tarong Energy Corporation. Lisa is responsible for the People and Governance business unit at Macarthur Coal which includes governance and audit, legal services, human resources and corporate communications.

Lisa began her legal 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.



**ROD DYER**

EGM – Projects  
*BE (Mech)*

Rod Dyer is the Executive General Manager – Projects for Macarthur Coal. Rod joined Macarthur Coal in November 2010 to deliver the substantial Macarthur Coal growth portfolio.

Rod has been delivering projects for blue chip owner organisations for over 30 years. Rod has project delivery and executive experience across a diverse range of industries and has previously worked for Peabody Energy, BMA, BHP Coal, BlueScope Steel, Boral, BHP Engineering, Goodman Fielder and Kellogg (Aust).

**CHPP working through the night at Moorvale Mine** – both mining and coal preparation activities are carried out 24 hours per day, seven days per week across all Macarthur's operations.



**ALLAN FIDOCK**

EGM – Operations  
*Assoc Dip Applied Science (Coalmining), Certified Mine Manager, MBus (Merit), MAusIMM, GAICD.*

Allan Fidock joined Macarthur Coal in March 2008 as EGM - Open Cut Development & Technical Services and was later appointed CEO Middlemount from August 2009 to September 2010. From 1 July 2011 Allan is Macarthur's EGM – Operations and is responsible for mine operations at Coppabella, Moorvale and Codrilla.

Allan has 30 years' experience in open cut and underground coal mining with a range of owner-operator and contractor companies. He has gained extensive first-hand experience in mine management, mine and project cost estimation and control, mine planning and optimisation, client liaison and negotiations. Allan has held senior management positions with companies such as New Hope Coal, Hunter Valley Earthmoving, Thiess and Anglo Coal Australia.

**GARY LEE**

EGM – Exploration  
*BAppSc (Hons)*

Gary Lee joined Macarthur Coal as Vice President Marketing in January 2004 with responsibility for the sales and marketing of all coal types from Coppabella and Moorvale mines. Gary has more than 30 years' experience in the coal industry in technical and marketing roles for both metallurgical and thermal coal.

On 1 September 2010, Gary took on the role of Chief Development Officer where he was responsible for evaluation of Macarthur's tenement portfolio, infrastructure management and carbon and energy management. From 1 July 2011, Gary assumed the role of Executive General Manager – Exploration to focus specifically on the exploration and evaluation of Macarthur's tenement portfolio and coal technology developments.

**GRAHAM YERBURY**

Chief Financial Officer  
*BCom, M.Bus (Mgt), CA*

Graham Yerbury joined Macarthur Coal in September 2010 as Chief Financial Officer with 18 years' experience working in senior finance roles for Arrow, BP and ARCO in their oil and gas businesses.

Graham was the Chief Financial Officer at Arrow and led a team of around 40 people dedicated to functions ranging from financial reporting to information technology. He was also responsible for overseeing the recently approved demerger of Arrow's international operations and the acquisition scheme that resulted in Arrow's domestic assets being transferred to Shell and PetroChina.

Graham is also a Chartered Accountant with post graduate qualifications in resource strategy and economics.



# DIRECTORS' REPORT

## 1 DIRECTORS

Directors of the Company at any time during or since the end of the financial year are:

NAME OF DIRECTOR	APPOINTED TO BOARD	PERIOD OF OFFICE	NON-EXECUTIVE	INDEPENDENT	RETIRING BY ROTATION AND SEEKING RE-ELECTION AT 2011 AGM <sup>1</sup>
Keith DeLacy – Chairman	5 July 2001	10 years	Yes	Yes	No
Roger Marshall – Deputy Chairman	5 July 2001	10 years	Yes	Yes	No
Nicole Hollows – Managing Director	28 June 2007	4 years	No	No	n/a
Peter Forbes	14 November 2003	7 years	Yes	Yes	Yes
Martin Kriewaldt	13 October 2008	2 years	Yes	Yes	No
Terry O'Reilly	13 October 2008	2 years	Yes	Yes	Yes
Chen Zeng	23 July 2007	4 years	Yes	No	No

<sup>1</sup> In accordance with the Company's Constitution and the Listing Rules

Details of the Directors' qualifications, experience, special responsibilities and details of directorships of other listed companies can be found in the Directors section on pages 60 to 61.

## 2 COMPANY SECRETARY

Lisa Dalton was appointed Company Secretary on 24 May 2007. Details of the Company Secretary's experience and qualifications are set out in the Senior Executives section on page 62. Lisa Dalton was assisted by Vickrem Naicker, Assistant Company Secretary and Tess Lye, General Manager – Governance and Legal during the year. Collectively, they are responsible for supporting the Board to fulfil its role and ensuring the Company's governance framework is followed.

## 3 DIRECTORS' MEETINGS

The number of Directors' Board and Committee meetings and respective attendance in the financial year to which the report relates are detailed below:

NAME OF DIRECTOR	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 DeLacy	17	17	5	5	5	5	4	4
Roger Marshall	17	15	*	*	5	3	4	3
Nicole Hollows	17	17	*	*	*	*	*	*
Peter Forbes	17	17	5	5	*	*	4	4
Martin Kriewaldt	17	16	3	3	5	4	*	*
Terry O'Reilly	17	16	2	2	3	3	4	4
Chen Zeng	17	15	*	*	*	*	4	4

A = Number of meetings held during the time the Director was a member of the Board and/or Committee

B = Number of meetings attended during the time the Director was a member of the Board and/or Committee

\* Not a member of the relevant Committee

#### 4 CORPORATE GOVERNANCE STATEMENT

This statement provides an overview of the Company's governance practices and reports for FY2011, against the ASX Corporate Governance Principles and Recommendations (2nd Edition) as amended in 2010 (ASX Principles). The Company's corporate governance practices comply with the ASX Principles unless otherwise stated, and are consistent with the ASX guide for reporting on the principles (the Guide).

Macarthur Coal's corporate governance framework is based on the philosophy that to achieve the Company's vision to be the number one independent coal company, it is essential that the governance framework delivers transparent oversight of the Company's operations and performance in a way that reflects the expectations of shareholders, the market and regulators.

The policies and charters referred to in this statement are available on the Company's web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au)

#### 4.1 BOARD AND MANAGEMENT ROLES AND RESPONSIBILITIES

##### 4.1.1 SNAPSHOT

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT		
How Macarthur Coal complies with Principle 1	Section reference	2011 Overview
1.1 The Board operates under a Board Charter and has in place documented delegations of authority between the Board and management which outline functions reserved to the Board and those delegated to management. To ensure Directors clearly understand the corporate expectations of them, all Directors receive a letter of appointment which, together with an induction program, ensures all Directors upon their appointment obtain a detailed overview of the Company, its strategic direction and its business.	4.1.4 4.1.6 4.1.7	The Company reviewed the roles and accountabilities for senior executives during the year, the aim of which was to ensure that role clarity and accountabilities aligned to the Company's strategy.  Position descriptions for all senior executives were revised and updated as a result of this review.
1.2 Senior executives are provided with letters of appointment, a clear position description and participate in a structured induction program.	4.1.9	A review of the role of the Board was also undertaken during the year as part of an evaluation of Board performance.
1.3 There has been no departure from the Guide to reporting on Principle 1:  • Performance evaluations for the CEO and senior executives have taken place during the year – refer to the Remuneration Report for full details.  The following documents are available on Company's web site:  • the Board Charter, which outlines the framework for delegated authorities from Board to CEO  • the Directors' Code of Conduct	5	A summary of the key components of the review can be found in section 4.2.7.

**Women in mining** – Operator Kylie Bateman is one of a number of women working at the Coppabella Mine, where women represent 13% of the workforce.



# DIRECTORS' REPORT CONTINUED

## 4.1.2 BOARD AND MANAGEMENT GOVERNANCE STRUCTURE

The diagram to the right provides an overview of the Board, Board Committees, senior executives and leaders, who underpin the oversight by the Board and its role as the Company's governing body.

## 4.1.3 THE BOARD

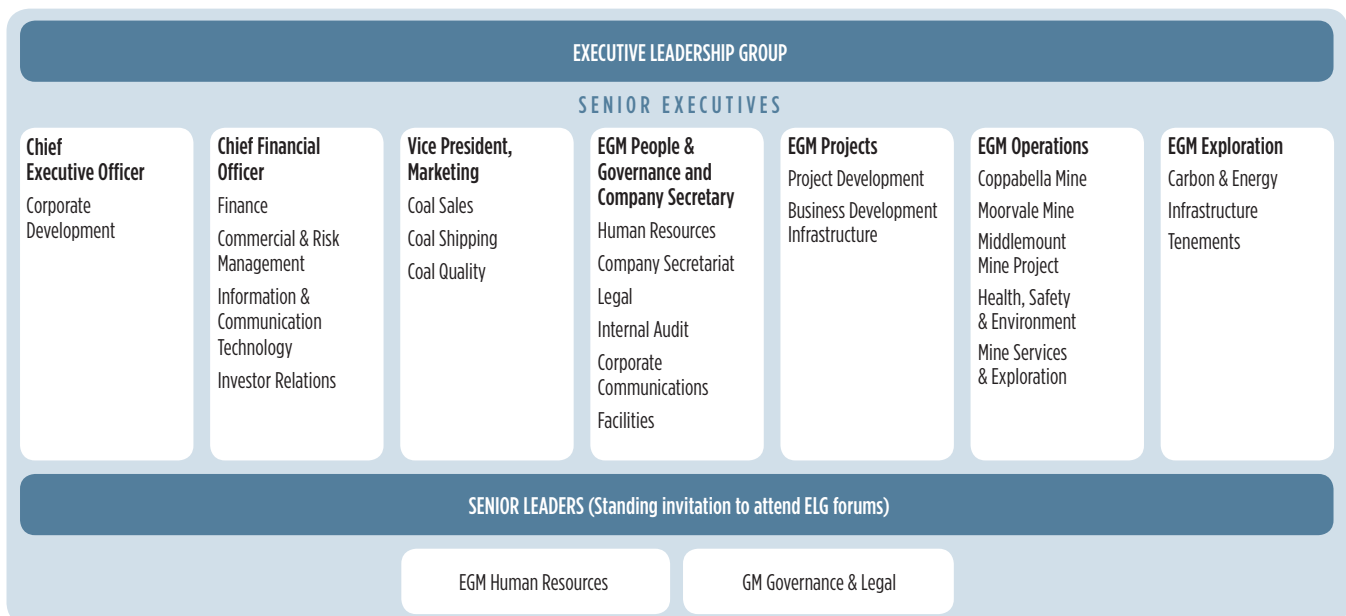
The Board had seven members, the majority of whom are Independent, Non-Executive Directors.

Three Committees assisted the Board with its oversight of various aspects of Company performance and governance, in the financial year to which the report relates. The Board approved the establishment of a fourth Board Committee – the Environment, Health, Safety and Sustainability Committee (EHS&SC) from 1 July 2011.



Each Committee operated under a written Charter approved by the Board:

COMMITTEE	RESPONSIBILITIES	SECTION REFERENCE
Audit and Risk Management Committee (ARMC)	The ARMC is responsible for monitoring internal controls and risk management, related party transactions, external reporting, appointing external and internal auditors and receiving reports from the auditors.	4.4.2
Nomination and Remuneration Committee (NRC)	The NRC is responsible for assisting the Board with Director selection and remuneration, Board evaluation, CEO appointment, remuneration and evaluation, the appointment and remuneration of senior executives and Diversity Policy implementation.	4.2.5
Special Projects Committee (SPC)	The SPC is responsible for reviewing, analysing and providing guidance to management on strategy and planning, sustainable growth, projects and budgets.	4.2.6



#### 4.1.4 THE BOARD'S ROLE

The Board is responsible for the effective oversight of the Company. The Board guides and monitors the Company's activities to ensure proper management of assets within acceptable governance and risk parameters and the creation of shareholder value.

A summary of the functions reserved to the Board is provided below:

#### 4.1.5 KEY ACTIVITIES OF THE BOARD DURING THE YEAR

The Board met 17 times during the year and key activities during this period included:

- Evaluating risk appetite and tolerances of the Company to facilitate effective strategic planning and risk management.
- Approving the Company's Corporate Strategic Plan, underpinned by core business strategies in the areas of Operations, Projects and Exploration, and Marketing.
- Approving the sell-down of the Codrilla Project by the Bowen Basin Coal Joint Venture to the Coppabella and Moorvale Joint Venture and confirming Codrilla as the Company's fourth mine.
- Capital raising associated with and for the acquisition of Mineral Development Licence (MDL) 162, a tenement in the Bowen Basin.

#### FUNCTIONS RESERVED TO THE BOARD

Strategy	Business Performance	Leadership	Remuneration	Financial Performance and Reporting	Safety and Environmental Management	Risk Management
Approving, evaluating and monitoring strategy, its implementation and key performance indicators	Approving and overseeing major expenditure, acquisitions/divestments and business operations	Evaluating the performance of Non-Executive Directors	Recommending Director remuneration to shareholders for approval	Approving all half yearly and annual financial reports	Monitoring safety and environmental performance <sup>1</sup>	Reviewing with management how the strategic and external operating environment is changing
		Determining the size and composition of the Board and its Committees	Setting CEO remuneration and monitoring executive remuneration within Board-approved policy limits	Evaluating, approving and monitoring annual budgets	Ensuring appropriate resources are available to meet environmental and safety management plans <sup>1</sup>	Reviewing with management the Material Business Risks of and opportunities for the Company
		Making recommendations to shareholders on Director appointment and retirement				Reviewing with management how Material Business Risks and opportunities are being managed, associated modifications in strategic direction, and acceptable risk tolerances
		Monitoring and managing the performance of the CEO and succession planning for the CEO				Overseeing mitigation plans for the Company's Material Business Risks
		Approving the appointment/removal of senior executives				

<sup>1</sup> Through the Environment, Health, Safety and Sustainability Committee of the Board from 1 July 2011.

# DIRECTORS' REPORT CONTINUED

## 4.1.6 THE CHIEF EXECUTIVE OFFICER (CEO)

The CEO manages strategy execution and the day-to-day operation of the business assisted by the senior executives.

The CEO is employed under a contract of employment with no fixed term. The role and responsibilities of the CEO are set out in a position description, which is reviewed annually by the Board. For details on the remuneration and employment conditions of the CEO refer to section 5.

The CEO operates under a Delegation of Authority (DOA) Policy put in place by the Board, which delegates authority to the CEO for the day-to-day management of the business. The DOA Policy includes both financial and non-financial delegations.

A summary of the functions delegated by the Board to the CEO is provided below:

## 4.1.7 MANAGEMENT'S ROLE

Senior executives, including the CEO, provide leadership to the Company and the functional business units and are responsible for the day-to-day management of the business, ensuring the effective implementation and communication of strategies, business plans, projects and policies as approved by the Board.

The CEO, senior executives and senior leaders constitute the Executive Leadership Group (ELG) which is accountable for:

- safety of people as the first priority
- demonstrating, by example, the Company's values
- proposing the direction and vision for the business for Board approval
- developing corporate strategy for Board approval

- executing corporate strategy through delivering and monitoring strong performance across business units
- addressing principal and major business issues as they arise
- monitoring the Material Business Risk (MBR) register and ensuring execution of risk mitigation plans
- leading change and communications across the business
- analysing business opportunities and recommending potential courses of action to the Board
- ensuring compliance with corporate policies and procedures
- leading organisational development and culture initiatives to ensure structure, systems, and skills are aligned with corporate strategy.

## FUNCTIONS DELEGATED TO CHIEF EXECUTIVE OFFICER

Strategy	Business Performance	Leadership	Remuneration	Financial Performance and Reporting	Safety and Environmental Management	Risk Management
Develop in conjunction with the Board. Implement and monitor strategic long term plans for the Company	Lead the Company to achieve all targets within agreed risk, governance and financial parameters	Manage a sustainable business through implementing appropriate leadership, culture, resources and skills programs	Establish and implement policies and procedures so the Company remunerates fairly and responsibly and links performance to long term shareholder value	Develop, implement and monitor the annual budget	Provide a safe workplace and ensure appropriate safety management systems are in place	Foster a culture that promotes good corporate governance, ethical practices and a robust internal control system
Reviewing with the Board how the strategic and external operating environment is changing	Plan, implement and monitor all major capital expenditure and all major corporate transactions within the Delegation of Authority Policy	Manage appropriate succession planning for strategically and operationally significant roles		Maintain a sound system of internal controls to safeguard the Company's assets and to manage risk exposure through appropriate forms of risk control	Ensuring the Company has an environmental management system in place and complies with environmental authorities	Review with the Board the Material Business Risks of and opportunities for the Company
Development of three and ten year plans	Drive improvement in all operational activities to secure the integrity/viability of the business					Oversee mitigation plans for the Company's Material Business Risks
						Report to the Board on the effectiveness of the Company's Risk Management System



#### 4.1.8 INTERNAL AUDIT

The Internal Audit function is outsourced. Internal auditors attend meetings of the Audit and Risk Management Committee to report on internal audit activities undertaken each quarter. Details of internal audits conducted in the financial year, to which the report relates, are set out in Section 4.7.5.

#### 4.1.9 ENSURING EFFECTIVE UNDERSTANDING OF ACCOUNTABILITIES

The appointment of new Directors and senior executives to the business is governed by letters of appointment. In the case of senior executives, employment contracts and position descriptions set out the Company's expectations of their roles and responsibilities. The Company's expectations as to behaviour are provided through induction in the Company's values and Corporate Code of Conduct.

Induction programs are tailored to specific roles and areas of responsibility. In addition, a Company-wide induction program is undertaken quarterly. Refresher training on the Corporate Code of Conduct is conducted annually.

Newcomers to the business are inducted in the Company's values and expectations of behaviours. They are also made aware of the Company's governance documentation, which communicates the responsibilities of the Board, its Committees, CEO, CFO, Company Secretary and other senior executives. Roles and accountabilities are reviewed annually across the business to align strategy with business objectives. This review cultivates a greater appreciation of individual roles and accountabilities and facilitates the updating of position descriptions and organisational structures where appropriate.

The diagram below provides an overview of the Company's governance documentation.

#### 4.1.10 CEO AND SENIOR EXECUTIVE PERFORMANCE

The performance of the CEO and senior executives is continually assessed in accordance with the Company's Performance Management Program with a formal one-on-one review undertaken annually. The process for evaluating the performance of the CEO and senior executives, the outcomes of the reviews conducted during the financial year, and any departures from the process, are set out in the Remuneration Report in section 5.

### DELEGATION OF AUTHORITY

Board, Committee and Directors	CEO, CFO and Company Secretary	Senior Executives and ELG
<ul style="list-style-type: none"> <li>Board Charter</li> <li>Director Letter of Appointment and Induction Process</li> <li>Directors' Code of Conduct</li> <li>Committee Charters</li> </ul>	<ul style="list-style-type: none"> <li>Board Charter</li> <li>Delegation of Authority Policy</li> <li>Position Descriptions and Contracts of Employment</li> <li>Corporate Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>Position Descriptions and Contracts of Employment</li> <li>Delegation of Authority Policy</li> <li>Corporate Code of Conduct</li> <li>ELG Terms of Reference</li> </ul>

### MANAGEMENT GOVERNANCE

Management Governance		
<b>Tools and Systems</b> Business Planning Cycle Corporate Scorecards Material Business Risk Register Risk Mitigation Plans Performance Management System Tenement Management System Commitments Register Document Management System Enterprise Resource Planning System Life of Mine Planning System Budgeting and Forecasting System	<b>Key Codes and Policies</b> Corporate Code of Conduct Share Trading Policy Environment Policy Climate Change Policy Privacy Policy Delegation of Authority Policy Segregation of Duties Policy Risk Management Policy Health and Safety Policy Sustainability Statement of Intent Continuous Disclosure Policy Shareholder Communication Policy Human Resources Policy Remuneration Policy Diversity Policy	<b>Procedures and Guidelines</b> Fraud and Corruption and Whistleblower Procedures Media Policy Information and Communication Technology Acceptable Use Policy Blackberry and Mobile Phone Policy Document Management Policy Energy Management Policy Crisis Management Plan
<b>Executive Management Committees</b> Executive Leadership Group Business Performance Group Executive Health and Safety Committee Treasury Committee Business Performance Improvement Steering Committee		

# DIRECTORS' REPORT CONTINUED

## 4.2 STRUCTURING THE BOARD TO ADD VALUE

### 4.2.1 SNAPSHOT

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE		
How Macarthur Coal complies with Principle 2	Section reference	2011 Overview
2.1 The majority of the Board is independent and the Board Charter contains a procedure for Directors to have access to independent professional advice at the Company's expense. Directors are required to disclose circumstances which may impact on their independence at every Board meeting.	4.2.2	An evaluation of Board performance was undertaken. The evaluation focused on reviewing the Board's role and performance. Refer to section 4.2.8 for details.
2.2 Mr Keith DeLacy, the Chairman of the Board, is an Independent Non-Executive Director and the Chair's role is set out in the Board Charter. Chairs of each Committee are also independent Directors.	4.2.4	
2.3 The Chairman and the CEO are different individuals.	4.2.4	
2.4 The Company has a Nomination and Remuneration Committee (NRC) comprising independent Directors and the chair of the Committee is an independent Director.	4.2.5	
2.5 A review of Board performance has been undertaken.	4.2.7	
2.6 There has been no departure from the Guide to reporting on Principle 2, the following information has been provided: <ul style="list-style-type: none"> <li>skills, experience and expertise of Directors and period of office</li> <li>independence of Directors and relationships impacting on independence</li> <li>access to independent professional advice</li> <li>mix of skills and diversity in the membership of the Board of Directors</li> <li>names of members of the NRC and attendance at meetings</li> <li>performance evaluation for the Board, its Committees and Directors.</li> </ul> The Company web site <a href="http://www.macarthurcoal.com.au">www.macarthurcoal.com.au</a> contains links to: <ul style="list-style-type: none"> <li>the NRC Charter, including the procedure and criteria for the selection and appointment of new Directors</li> <li>the Company's Constitution, which sets out the rules for the re-election of incumbent Directors and their retirement.</li> </ul>	4.2.2 4.2.3 4.2.5	

### 4.2.2 DIRECTOR INDEPENDENCE AND DECISION MAKING

The Board believes that all Directors:

- retain a strong independence of mind and attitude and bring independent judgment when making decisions
- have a range of experience, knowledge and skills necessary for them to serve as Directors on the Board of a company with the Company's vision.

Refer to pages 60 to 61 for an overview of the Directors' experience and skills.

The Board requires Directors to disclose any interests that may impact on a Director's independence. This disclosure is a standing

agenda item for Board meetings, and facilitates assessment by the Board of the continuing independence of Directors.

The Board's judgment and reasons for determining independence of the Directors is as follows:

#### Independent, Non-Executive Directors

Keith DeLacy (Chairman), Roger Marshall (Deputy Chairman), Peter Forbes (Chairman ARMC and SPC), Martin Kriewaldt and Terry O'Reilly (Chairman NRC) are not substantial shareholders and have no material business relationships with the Company or other circumstances that would impact independent judgment.

### Non-Executive Directors

Chen Zeng is the Executive Chairman of CITIC Australia Pty Ltd a member of the CITIC Group. The CITIC Group, of which Chen Zeng is a Director, is the Company's largest shareholder.

### Executive Director

Nicole Hollows (Managing Director and Chief Executive Officer) is employed by the Company as Chief Executive Officer and is not independent of management.

### 4.2.3 INDEPENDENT DECISION MAKING

To facilitate independent judgment and decision making by Directors, all Directors, at the Company's expense and with the consent of the Chairman, may obtain independent advice concerning any aspect of the Company. The Chairman may determine that any advice received by an individual Director should be circulated to the remainder of Directors.

### 4.2.4 ROLE OF THE CHAIRMAN

The Chairman, Mr Keith DeLacy, is an Independent Director and has been Chairman since the Company listed in 2001. The Chairman's role is clearly defined in the Board Charter and includes:

- chairing Board meetings and meetings of members
- informing Directors of all matters
- providing guidance and mentoring to the CEO
- overseeing the evaluation of the CEO through the NRC
- managing an annual Board evaluation.

#### 4.2.5 NOMINATION AND REMUNERATION COMMITTEE (NRC)

The Nomination and Remuneration Committee (NRC) operates under a Board-approved Charter. The Charter includes requirements for the selection and appointment of new Directors and a pro-forma letter of appointment. The NRC has delegated authority from the Board to identify, short-list and recommend the appointment of new Directors to the Board in accordance with NRC procedures. Any appointment must be made with the approval of the majority of Independent Directors of the Board. The appointee holds office until the next General Meeting, at which time their appointment is put to shareholders for approval.

The factors that are required to be considered in appointing a new Director include:

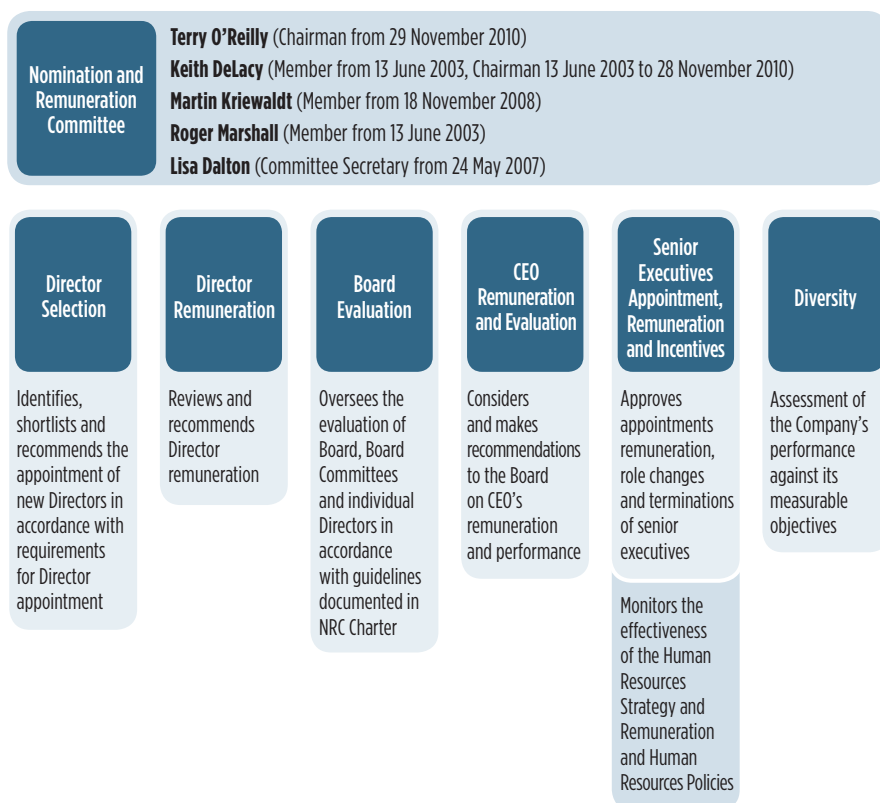
- time commitments
- existing directorships
- independence status
- skills and expertise.

The Company's Constitution sets out rules for retirement and re-election of incumbent Directors. Re-election of incumbent Directors requires the approval of shareholders.

In 2011, the duties of the NRC were extended to include stewardship of the Company's Diversity Policy and the appointment of remuneration consultants, enabling independent remuneration advice to be provided directly to the NRC.

Attendance at NRC meetings is detailed in the table of Directors' meetings on page 64. Membership of the NRC and its areas of responsibility are summarised in the diagram to the top right:

#### NRC MEMBERSHIP AND RESPONSIBILITY



**A busy production circuit at Coppabella Mine** – Macarthur's shovel 'The General' continuing to load haul trucks with approximately 220 tonnes of overburden.



# DIRECTORS' REPORT CONTINUED

## 4.2.6 THE SPECIAL PROJECTS COMMITTEE (SPC)

The Special Projects Committee (SPC) operates under a Board-approved Charter. The SPC is responsible for reviewing, analysing and providing guidance to management on significant mining projects as identified by the business. 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 significant projects. A summary of SPC membership and its role is shown to the right:

## 4.2.7 BOARD, COMMITTEE AND DIRECTOR EVALUATIONS

An evaluation of Board performance, managed by the Chairman, was undertaken in June 2011. There were four areas of focus in this year's evaluation and a summary of the outcomes is as shown to the right:

## SPC MEMBERSHIP AND SUMMARY

### Special Projects Committee

- Peter Forbes** (Chairman from 16 August 2007)
- Roger Marshall** (Member from 11 August 2008)
- Terry O'Reilly** (Member from 18 November 2008)
- Chen Zeng** (Member from 16 August 2007)
- Lisa Dalton** (Committee Secretary from 16 August 2007)

Reviewing, analysing and providing guidance on special projects from time to time. In the 2011 financial year the Committee's primary focus was overseeing progress on the execution of the Company's sustainable growth strategy, and in particular, the Codrilla Mine project.

## BOARD EVALUATION

AREA EVALUATED	OUTCOME
Strengths of the Board	The review confirmed that the strengths of the Board included a diverse range of skills, knowledge and experience, an ability to discuss issues openly, an effective and open working relationship with management and a strong contribution to oversight of the Company by all members of the Board.
Major achievements	Major achievements of the Board over the past 12 months were identified as maintaining a focus on strategic growth through both organic growth (Codrilla) and acquisitions (MDL162) and development of a corporate strategic plan to underpin long-term shareholder value.
Areas of Board focus	Areas identified for Board focus in 2012 include succession planning, building a safety culture and links between strategic implementation and key performance indicators.
Board reporting and governance documentation	Board reporting and governance documentation was found to be generally robust and sound. The overall quality and effectiveness of Board papers has improved through documentation and training of staff in Board paper processes and objectives. The Risk Management Policy was significantly overhauled and the Company moved to early adoption of a Diversity Policy.

**Macarthur's University of Queensland mining engineering scholarships lead to jobs** – previous scholarship recipients Benn Webb and Scott Benjamin were recently promoted from the positions of Graduate Mining Engineer to Mining Engineer at the Coppabella Mine.



### 4.3 ETHICAL AND RESPONSIBLE DECISION MAKING

#### 4.3.1 SNAPSHOT

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING		
How Macarthur Coal complies with Principle 3	Section reference	2011 Overview
3.1 The Company has in place both a Directors' Code of Conduct and a Corporate Code of Conduct for all employees and contractors. Compliance with the ethical principles and values set out in these Codes is underpinned by procedures for whistleblowing and reporting suspected fraud and/or corruption.  The Share Trading Policy is clear about the Company's expectations when Directors, officers and employees trade in the Company's shares.	4.3.2	The Company's values (the Four Pillars) serve as a guide for decision-making, communicating and interacting with internal and external stakeholders.  Reviews undertaken during the year assessed performance of the Board, the CEO, senior executives and employees against the Four Pillars.
3.2 The Diversity Policy established measureable objectives for achieving gender diversity and the Board will report annually on the objectives and progress in achieving those objectives.	4.3.7	Macarthur Coal adopted a Diversity Policy to document the principles, commitment and measureable objectives in relation to diversity upon which the Company forms and implements its recruitment and retention strategies for Board, management and workforce roles.
3.3 The Company's measureable objectives for achieving gender diversity are disclosed in the Company's Annual Report and a copy of the Diversity Policy is available on the Company's web site.	4.3.7	No breaches of the Company's Share Trading Policy were identified during the year.
3.4 The proportion of female employees on the Board, in senior executive positions and in the Company is disclosed in the Company's Annual Report.	4.3.7	
3.3 There has been no departure from the Guide to reporting on Principle 3. Copies of the Diversity Policy, Directors' Code of Conduct, Corporate Code of Conduct, Share Trading Policy, and the Fraud and Corruption and Whistleblower Procedures are available on the Company's web site <a href="http://www.macarthurcoal.com.au">www.macarthurcoal.com.au</a>		

#### 4.3.2 ETHICAL STANDARDS AND CODES OF CONDUCT

All Directors and employees are expected to adhere to certain basic principles in all their activities in recognition that Macarthur Coal's good reputation is an essential element of its success. Underpinning its expectations of Directors and employees are the Company's values, the Four Pillars, which guide how Directors and employees interact on a daily basis. See page 55 for details on the Four Pillars. The Performance Management Program also assesses employee performance against the Four Pillars, which reinforce the ethical standards expected by the Company.

Behavioural expectations of Directors, employees and contractors are contained in the Company's Corporate Code of Conduct and Directors' Code of Conduct. These codes of conduct:

- are designed to maintain confidence in the integrity of the Company
- set out the basic principles Directors, employees and contractors should follow in dealings related to the Company
- encourage individuals to be familiar with the laws affecting their responsibilities and to report unethical practices.

In addition, the Company has procedures for reporting and investigating fraud and corruption, including a framework for anonymous whistleblowing. These are in place to protect the revenue, property, information and other assets of the Company from any attempt, either by external

individuals or by its own employees, to derive by deceit, financial or other benefits, and to protect those who come forward with suspicions of unethical conduct.

The Codes of Conduct and the Fraud and Corruption and Whistleblower Procedures are made available to Directors, all employees and contractors. New employees and Directors are made aware of their obligations as part of their induction process. Employees and contractors participate in annual refresher training on the Corporate Code of Conduct and the Fraud and Corruption and Whistleblower Procedures.

An assessment of how individuals adopt the Company's values was undertaken for the Board, the CEO, senior executives and all employees during the year as part of the performance evaluation process.

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 the Company
- exercise of care and due 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 the Company 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.

# DIRECTORS' REPORT CONTINUED

## 4.3.2 ETHICAL STANDARDS AND CODES OF CONDUCT CONTINUED

A copy of the Directors' Code of Conduct is available on the Company's web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au)

The Corporate Code of Conduct applies at all times and sets out the ethical and behavioural standards to which Directors and employees must adhere in conducting business and addresses:

- commitment to safety at all times
- loyalty in the Company
- compliance with the law
- integrity in dealings with others
- preservation of confidentiality
- treatment of others with respect and honesty
- reporting unethical behaviour.

Employees are requested to confirm compliance with key policies, including the Corporate Code of Conduct on an annual basis, and disclose any issues they are aware of that could impact the application of the Code to management practices.

The Corporate Code of Conduct is available to employees via the Company's intranet and to the public on the Company's web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au)

## 4.3.3 CONFLICTS OF INTEREST

Directors must declare any material personal 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 and not receive Board papers in relation to the matter. Decisions related to the matter creating the conflict are determined either in the absence of the affected Director or with the Director present, provided the remainder of the Board has approved that the conflicted Director may remain present. Notices of any material personal interests are documented in the minutes. Details of Director-related entity transactions with Macarthur Coal are set out in Note 37 to the Financial Statements.

## 4.3.4 TRADING IN 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, which reflects the requirements of the Corporations Act 2001 and the ASX Listing Rules.

The Company's Share Trading Policy:

- informs 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
- clarifies the Company's position on Directors entering into margin lending arrangements in respect of shares in the Company
- prohibits Directors, employees and their closely-related parties from entering into any arrangement which would have the effect of limiting the economic risk of holding vested (but subject to holding lock) and unvested remuneration from the Company.

Key elements of the Share Trading Policy are:

- details of permissible and prohibited trading periods
- details of who to contact to seek approval should an employee, 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.

The Share Trading Policy is available on the Company's web site.

## 4.3.5 FRAUD AND CORRUPTION PROCEDURES

Macarthur Coal has a zero tolerance approach to fraud and corruption. The Risk Management Policy and fraud and corruption procedures 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.

The procedures also detail the process for reporting and investigating possible fraudulent or corrupt activity. The Fraud and Corruption and Whistleblower Procedures are available on the Company's web site.

## 4.3.6 WHISTLEBLOWER PROCEDURES

The internal process for making and handling reports by employees of inappropriate conduct of individuals within the Company ("whistleblowers") is documented in the whistleblower procedures available to staff on the Company's intranet and externally on the Company's web site.

It is a simple and clear process designed to support employees in raising concerns about the conduct of individuals within the Company, on an anonymous basis, and ensures they remain free from recrimination and harassment. The process supports the effective operation of the Company's Risk Management Policy and the Company's Codes of Conduct.

The Fraud and Corruption and Whistleblower Procedures are available on the Company's web site.

## 4.3.7 DIVERSITY POLICY

The long-term workforce requirements of the Company, with the challenges of recruiting and retaining a skilled workforce for remote and regional operations, create an imperative for the Company to continually develop initiatives to foster a broad level of participation and representation of members of the community in the business.

The Company recognises the important contribution made by people of diverse backgrounds, experience, age and cultural association to its business.

The Company adopted its Diversity Policy in February 2011.

The Company has long recognised the value that diversity brings to its business. As a member of the Queensland Resources Council (QRC), the Company has formally adopted and endorsed a commitment to the QRC's Leading Practice Principles, which pre-date the adoption of the Diversity Policy.

The Company is committed to maximising the opportunities for people from diverse cultural and social backgrounds, with a range of life experiences, to participate in the Company's growth at all levels of the business.

The measurable objectives that underpin the Company's commitment to increasing diversity of participation are:

- the adoption, publication and promotion of the Diversity Policy
- structuring recruitment and selection processes to recognise the value that diversity brings to the Company in recruiting the best candidate for each and every role
- providing relevant and challenging professional development and training opportunities to employees
- providing flexible work and salary arrangements to accommodate family commitments, external study, cultural traditions and other personal choices of employees and potential external candidates for roles with the Company
- having a clear and transparent governance process around reward and recognition.

The Nomination and Remuneration Committee (NRC) acts as the Board's Diversity Committee. The roles and responsibilities of the Diversity Committee are set out in the NRC's Charter.

The implementation of the Diversity Policy during the year ending 30 June 2011 provides the Company with a framework for reporting on initiatives designed to promote diversity and the performance of the Company in achieving the Policy's measurable objectives.

The Diversity Policy's adoption and publication in February 2011 coincided with the internal promotion and introduction of a range of employee benefits designed to provide flexible work and salary arrangements for career development and financial security. A key initiative was the implementation from 1 January 2011 of a paid parental leave scheme, providing employees with six weeks' paid leave capped at \$150,000, less the Government's paid parental leave scheme entitlement. The paid parental leave entitlements have been revised effective from 1 July 2011, see page 54 for details.

The Company considers that increased, meaningful and long-term participation of women in the Company is best achieved through professional development opportunities and flexible employment practices rather than through quotas.

At the time of adoption of the Diversity Policy in February 2011, the Company had in place a number of initiatives to support female participation at all levels of the organisation, namely:

- diversity training across all locations on an at least annual basis
- Contact Officers available to provide support and guidance to employees who feel they may be a victim of inappropriate conduct
- through its support of QRC, participation in the Annual Women In Mining Awards program
- discretion of leaders to support employees through flexible work arrangements such as part time, flexible start and finish times, and in some instances, work from home arrangements

- the Company's position on equal employment opportunities and anti-discrimination as articulated in the Human Resources Policy, providing that no disadvantage will be applied through the recruitment process.

As at 30 June 2011, the proportion of women employees in the Company was as follows:

LEVEL	PROPORTION OF WOMEN AS PERCENTAGE (%)
Board (including Managing Director and CEO)	14%
Executive and senior leaders (including Managing Director and CEO, CEO direct reports and standing invitees to Executive Leadership Group as at 30 June 2011)	44%
Company	21% (Corporate 48%, Site-based 13%)

In reporting on these statistics, the Company acknowledges the ongoing challenges of building a diverse workforce and achieving consistent representation of women across its corporate and site-based operations. The Company continues to proactively engage with employees and the community on how it can better deliver working and living conditions that promote employment opportunities for a greater cross-section of the communities in which the Company operates.

Please refer to page 52 for information regarding human resources initiatives including recruitment and selection processes, learning and development, employee benefits and reward and recognition mechanisms.

There has been no departure from the Guide to reporting on gender diversity for the year ending 30 June 2011.

The Diversity Policy is available on the Company's web site.

# DIRECTORS' REPORT CONTINUED

## 4.4 SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

### 4.4.1 SNAPSHOT

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING		
How Macarthur Coal complies with Principle 4	Section reference	2011 Overview
4.1 The Company's Audit and Risk Management Committee (ARMC) met five times during the financial year.	4.4.2	The ARMC Charter was reviewed during the year.
4.2 The ARMC: <ul style="list-style-type: none"> <li>• consists of only Independent Non-Executive Directors</li> <li>• members are financially experienced with qualifications and experience relevant to the accountabilities of the Committee</li> <li>• is chaired by an Independent Non-Executive Director, Peter Forbes, who is also a qualified accountant with experience in financial monitoring and reporting. Mr Forbes is not the Chairman of the Board.</li> </ul>	4.4.2 Pages 60-61	No changes were made to the Charter as it was found to satisfactorily outline the ARMC's role and responsibilities, composition, structure and membership requirements.  Key activities of the ARMC included consideration of the Company's Risk Management System, material business risks, business process improvements, oversight of the internal and external auditors, the evaluation of the half-year and full financial reports and the accounting policies and issues impacting on those reports.
4.3 The ARMC operates under a formal Board-approved Charter which is reviewed annually.	4.4.2	
4.4 There has been no departure from the Guide to reporting on Principle 4, the following information has been provided: <ul style="list-style-type: none"> <li>• ARMC members and their qualifications</li> <li>• attendance at ARMC meetings and the number of meetings held</li> <li>• the ARMC Charter sets out the procedure for the selection and appointment of the External Auditor and for the rotation of external audit engagement partners.</li> </ul> A copy of the ARMC charter is available on the Company's web site.	Pages 60-61 3	

### 4.4.2 AUDIT AND RISK MANAGEMENT COMMITTEE (ARMC)

Membership of the ARMC and its areas of responsibility are summarised on the next page.

The ARMC focuses on the integrity of the Company's financial reporting, risk management and internal control system. It 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 and senior managers in the finance team attended ARMC meetings at the invitation of the Committee. The External Auditor, KPMG, attended five meetings at the Committee's invitation during the year and the Internal Auditor, Ernst & Young, attended four meetings at the Committee's invitation.

The internal and external auditors attend meetings to present outcomes of their audits to the ARMC.

The Committee provides reports to the next Board meeting immediately following an ARMC meeting. The Chairman of the ARMC outlines key points raised by the ARMC to the full Board and advises the Board of any recommendations or assessments made by the Committee in respect of the Company's control environment.

### 4.4.3 EXTERNAL AUDIT

The selection and appointment process for the External Auditor is the responsibility of the Committee and is set out in the ARMC Charter. When a vacancy occurs, the Committee meets and determines 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 (AGM).
- Annually reviews the External Auditor's performance. The review includes obtaining feedback from the CFO and other members of senior management regarding the quality of the audit service.
- Monitors that the External Auditor has arrangements in place for the rotation of the audit engagement partner. The audit engagement partner must rotate every five years.
- Monitors any non-audit services provided by the External Auditor do not compromise the independence of the external audit function.



**ARMC MEMBERSHIP AND RESPONSIBILITY**

**Audit and Risk Management Committee**

**Peter Forbes** (Chairman, Member from 14 November 2003 and Chairman since 16 August 2007)  
**Keith DeLacy** (Member from 18 February 2003)  
**Martin Kriewaldt** (Member from 1 November 2010)  
**Terry O'Reilly** (Member from 18 November 2008 to 1 November 2010)  
**Lisa Dalton** (Committee Secretary from 24 May 2007)

<p><b>External Reporting</b></p> <p>Review and assess systems and processes used by management to prepare reports to regulators so they are in order for adoption by the Board</p>	<p><b>Related Party Transactions</b></p> <p>Review and monitor related party transactions and assess their propriety</p>	<p><b>Internal Control and Risk Management</b></p> <p>Review and assess effectiveness of internal processes for determining, monitoring and assessing Material Business Risks</p> <p>Review and assess internal controls and report to the Board on any breaches, fraud, theft, litigation and claims</p>	<p><b>External Audit</b></p> <p>Select an External Auditor in accordance with documented guidelines and review and assess their independence</p> <p>Review external audit findings and monitor management's responsiveness to External Auditor findings</p>	<p><b>Internal Audit</b></p> <p>Select an internal auditor and monitor and assess the progress of internal audit and management's responsiveness to internal audit findings</p> <p>Review internal audit findings and monitor management's responsiveness to internal audit</p>
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- 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 and thereby enhances the Company's credibility
- ensures information for investors is easy to understand and accurate at all times.

The CEO or Company Secretary is informed immediately of any matters which have the potential to influence the Company's share price or which 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. During the financial year, all employees, particularly senior executives and leaders, were made aware of the CDP and the importance of disclosing material information to the CEO or Company Secretary.

**4.5 MAKING TIMELY AND BALANCED DISCLOSURES**

**4.5.1 SNAPSHOT**

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE		
How Macarthur Coal complies with Principle 5	Section reference	2011 Overview
5.1 The Continuous Disclosure Policy sets clear parameters for communication, including accountability for compliance with disclosure obligations under the ASX Listing Rules.  Shareholders are provided with quarterly, half-yearly and annual reports. The Company web site is also used as a platform for communicating with key stakeholders.	4.5.2	Timely and balanced communication with employees and external stakeholders was integral to the Company's activities and was a key focus for management in 2011.
5.2 There has been no departure from the Guide to reporting on Principle 5. The Continuous Disclosure Policy is available on the Company's web site.		

**4.5.3 MEDIA POLICY**

The Company's Media Policy provides a process and responsibilities for contact with and response to the media. The Media Policy links to the Continuous Disclosure Policy and has as one of its objectives that any media speculation is responded to appropriately.

**4.5.4 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 ASX Listing Rules. In addition, a standing item has been added to the Board agenda to prompt disclosure of changes to relevant or material personal interests.

**4.5.2 CONTINUOUS DISCLOSURE**

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

The Continuous Disclosure Policy:

- enables the Company, in a disciplined and consistent way, to balance the information needs of investors with the Company's need to protect confidential or commercially sensitive information while meeting its legal obligations

# DIRECTORS' REPORT CONTINUED



## 4.6 RESPECTING THE RIGHTS OF SHAREHOLDERS

### 4.6.1 SNAPSHOT

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS.		
How Macarthur Coal complies with Principle 6	Section reference	2011 Overview
<p>6.1 The Shareholder Communication Policy outlines the minimum standards acceptable for communication with the Company's shareholders.</p> <p>Shareholders are provided with regular communication through quarterly, half-yearly and annual reports.</p> <p>The Company web site is also used as a platform for communicating with shareholders.</p> <p>Shareholders are encouraged to receive communications electronically.</p>	4.6.1	<p>The Company's primary communication tool is its web site, which is regularly updated with Company announcements and news.</p> <p>The web site was upgraded in 2011, in line with a corporate rebrand in celebration of the Company's 10th anniversary of listing on the ASX.</p> <p>During 2011, the Company strengthened its communications function with the appointment of a GM – Stakeholder Relations.</p>
<p>6.2 There has been no departure from the Guide to reporting on Principle 6.</p> <p>The Shareholder Communication Policy is available on the Company's web site.</p>		<p>The Company makes a donation to eTree for every shareholder who opts to receive information electronically.</p>

Communication objectives and tools are summarised below:

#### COMMUNICATION OBJECTIVES

The Company takes seriously its obligations to communicate with shareholders and is committed to monitoring and improving communication. The Shareholder Communication Policy provides a framework 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 Investor Relations Officer deals with shareholder queries, whether in person, via telephone, fax, email or post.

#### 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 web site.

#### WEB SITE

Macarthur Coal's web site contains information on its investments, share price (subject to a 20-minute delay), ASX announcements, the Share Registry contact information, the top 20 shareholders list, marketing information and corporate governance documents.

#### REPORTS TO SHAREHOLDERS

Shareholders are provided with quarterly, half-yearly and annual reports. In preparing its reports, Macarthur Coal presents not only its achievements, but also the challenges that confront the Company, so shareholders are able to form an accurate assessment of the Company's value.

The Company also strives to ensure that language used in shareholder communication is readily understood and free from unnecessary jargon. To assist readers, the Company provides a glossary of mining industry and financial terminology in each Annual Report and makes the glossary available on the Company's web site.

#### GENERAL MEETINGS

The Company encourages shareholders and other interested parties to attend and participate in its general meetings. The Company views the meetings as open forums that facilitate discussion between the Board, management and shareholders. The meetings also demonstrate the Company's commitment to being accountable to shareholders and allow the Company 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's web site. The External Auditor attends the Annual General Meeting and is available to answer questions regarding the audit. Shareholders may submit questions prior to General Meetings via email or the web site. The rules for convening a General Meeting are detailed in the Company's Constitution. A copy of the Constitution is available on the Company's web site.

## 4.7 RECOGNISING AND MANAGING RISK

### 4.7.1 SNAPSHOT

PRINCIPLE 7: RECOGNISE AND MANAGE RISK.		
How Macarthur Coal complies with Principle 7	Section reference	2011 Overview
7.1 A Board-approved Risk Management Policy requires that Macarthur Coal's activities be undertaken within Board-approved risk tolerance levels to protect profitability and assets including management, oversight and reporting of Material Business Risks (MBR).	4.7.2	Ongoing reviews by senior leaders of risk mitigation plans for each MBR. Half-yearly reviews by the senior leaders of business unit risk registers help embed risk management practices into the Company's daily operations
7.2 The Board has received a report from management on the MBRs facing the business, the process undertaken to identify and assess those risks, each risk's mitigation plan and the monitoring regime in place.	4.7.3	A review of the Company's Risk Management Policy was undertaken in 2011.
7.4 The Board has also received assurances in writing from the CEO and CFO that the financial reporting risks and associated internal controls are operating effectively in all material respects.	4.7.4	
7.5 There has been no departure from the Guide to reporting on Principle 7. The Risk Management Policy is available on the Company's web site.		

### 4.7.2 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.

The Risk Management Policy, approved by the Board, requires that Macarthur Coal's activities are undertaken within Board-approved risk tolerance levels to protect profitability and assets. The Policy clearly sets out the role of the Board and management in managing them Company's risks.

The diagram below provides an overview of the roles of the Board and the leadership group in risk management.

### RISK MANAGEMENT FRAMEWORK

BOARD'S ROLE	Approve Risk Management Policy	Approve Corporate Strategy and Risk Appetite	Adopt Systems of Accountability	Monitor and Supervise
<b>MANAGEMENT'S ROLE (CEO AND ELG)</b>	<ul style="list-style-type: none"> <li>Map the risk environment of the organisation.</li> <li>Draft and recommend the appropriate risk management structure.</li> <li>Support Directors in setting the "tone at the top" including endorsing and adopting the Corporate Code of Conduct.</li> </ul>	<ul style="list-style-type: none"> <li>Provide leadership in implementing and maintaining a structured risk management process to identify, assess and manage risks.</li> <li>Develop Material Risk Registers and mitigation strategies.</li> <li>Ensure risk profile is aligned with strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement systems to detect and report risks.</li> <li>Allocate resources to implement agreed mitigation strategies.</li> <li>Provide ongoing education and training to staff.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the Material Business Risks and risk events.</li> <li>Monitor the on-going effectiveness of the risk management process.</li> </ul>

# DIRECTORS' REPORT CONTINUED

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

	OBJECTIVE
<b>Continuous Disclosure</b>	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.
<b>Delegation of Authority</b>	To ensure that the commitment of Macarthur Coal funds, the subsequent expenditure of those funds and asset disposals are approved by personnel with proper delegated authority.
<b>Short Term Investments</b>	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.
<b>Foreign Exchange</b>	To ensure exposure to currency risk caused by foreign exchange rate volatility is managed and that only well-understood hedging products are used.
<b>Health, Safety and Environment</b>	To ensure maintenance of a safe and healthy work environment where people are protected from injury or illness and where assets are not at risk. To ensure a sustainable balance is achieved between economic development and the protection of the natural environment.
<b>Human Resources</b>	To ensure that employees carry out operations in compliance with legislative requirements, adhere to all relevant business codes of practice and have due regard to the required ethical standards.
<b>Share Trading</b>	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 and the ASX Listing Rules.
<b>Fraud and Corruption</b>	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.
<b>Whistleblower</b>	To put in place a confidential and secure process for personnel to anonymously report conduct that is unethical, dishonest, fraudulent, corrupt, illegal or otherwise unacceptable.
<b>Segregation of Duties</b>	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.
<b>Corporate Code of Conduct</b>	To ensure legal and ethical obligations to all stakeholders are met.
<b>Crisis Management Plan</b>	To provide guidance and parameters for identification and management of a crisis.

Dusk at Moorvale Mine – overlooking the CHPP and maintenance workshop with rehabilitated pastures in the foreground.



### 4.7.3 RISK MANAGEMENT PROCESS

The CEO and the Executive Leadership Group (ELG) are accountable for identifying, assessing, monitoring and managing strategic, financial and operational risks and the Company's Material Business Risks (MBRs). The diagram below shows the process undertaken to assess, monitor and mitigate Material Business Risks.

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

- strategy
- mining operations (including health, safety and environment)
- marketing
- commercial
- infrastructure
- exploration and development
- finance
- human resources
- fraud and ethical conduct
- information technology
- carbon
- facilities
- legal
- company secretariat.

Business unit risk registers include information on:

- events with the potential to cause loss
- consequences
- existing mitigators (i.e. preventative controls)
- 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 ELG identifies high and extreme risks of the Company on a half-yearly basis. A gap analysis is then undertaken between the risks identified by the ELG and the risks captured on the business unit risk registers. High and extreme risks are then collated, based on materiality, into the MBR register. This process provides assurance that MBRs facing the business from a Company-wide perspective have been identified and recorded.

This process facilitates the development and implementation of risk mitigation plans for each MBR and provides accountability for mitigating actions. The mitigation plans generate opportunities for performance improvement and key mitigation items are monitored regularly by the ELG.

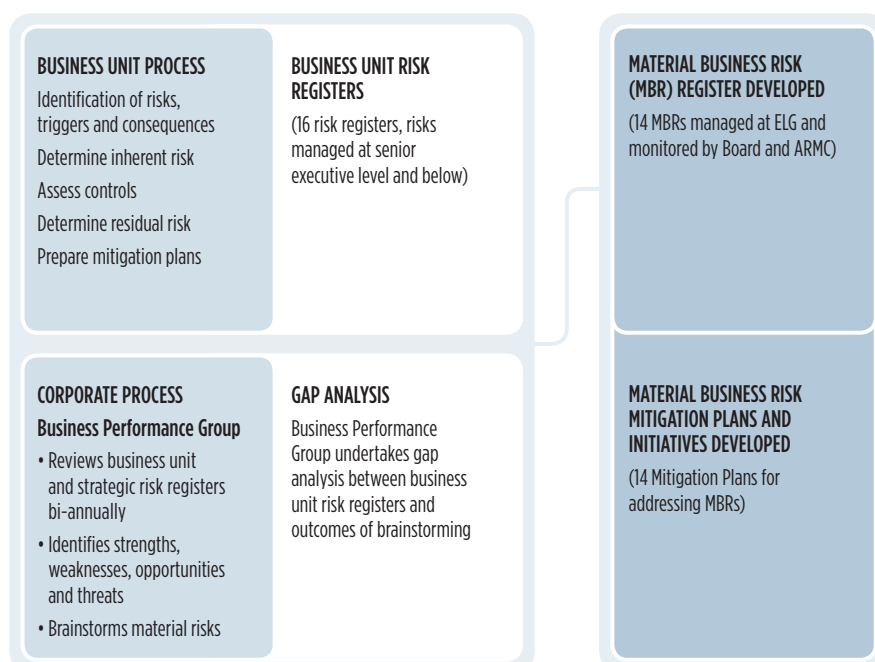
The Company has identified 14 MBRs facing the business and reported these to both the ARMC and the Board, together with mitigation plans. The following indicative list identifies the areas in which the Company's MBRs fall and is provided here as context

only to aid appreciation of the challenges and opportunities faced by Macarthur Coal and the industry in general:

- production disruption
- infrastructure access and supply chain failure
- increasing regulation/change
- carbon management
- rising costs
- maintaining licence to operate
- business interruption
- development of new projects
- loss of, or difficulty attracting, skilled employees
- damage to reputation
- compliance culture.

The Company's mitigation plans for each of the MBRs are monitored by management, the ARMC and the Board. The MBR profile is reported to the ARMC and the Board on a half-yearly basis.

### RISK MANAGEMENT PROCESS



# DIRECTORS' REPORT CONTINUED

## 4.7.4 CEO AND CFO SIGN OFF

Part of the Company's Risk Management Policy is 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 Company policies is incorporated into the induction program for all new employees. A summary of Macarthur Coal's key policies was provided to employees during the year, emphasising the Company's expectations for compliance with its key policies. Policies and procedures are available to all employees on the Company's intranet and all policies are subject to an annual review process. In 2011, the Company transitioned to an Enterprise Online Legal Compliance Training System, which allows for compliance training of all employees via a personalised log-in remote online application. This system replaced the previous paper-based certification programs and allowed for the easy exportation of results for assessment and ongoing improvement analysis.

### COMPLIANCE CONTROL CHECKLISTS

Every six months a management questionnaire measures compliance and gathers information on any issues that may have arisen. These are reviewed by the CEO and senior executives and outcomes summarised in management representation letters to the ARMC and the External Auditor, as part of half-yearly and annual reporting. The questionnaire ask questions in the areas of:

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

### SELF-ASSESSMENT ON MANAGEMENT OF MBRS

As part of the annual sign off, the CEO and members of the ELG undertook a self-assessment of the risk management and internal control system in place to manage the Company's Material Business Risks (MBRs). This facilitated planning for quarterly presentation of MBRS to the ARMC, in addition to the half-yearly report on the MBR register, to allow more focused discussion of specific material risks with the ARMC.

### BUSINESS CONTINUITY TESTING

In 2011 the Company's Crisis Management Plan was revised to incorporate suggested amendments raised in a review conducted in the previous year. A 'mock emergency' was held in June 2011 and the results of this exercise are currently being reviewed.

## 4.7.5 INTERNAL AUDIT

Ernst & Young is the Company's Internal Auditor and has assisted the Board in ensuring compliance with internal control and risk management programs. The internal audit function seeks to identify opportunities, for continuous improvement of the business and management of risks to the Company.

The audit program includes a review of the effectiveness of compliance and control systems. Audit activity is focused on system-based risks identified as having potential to adversely affect Macarthur Coal.

The 2011 internal audit plan covered:

- payroll fraud vulnerability assessment
- hedging accounting processes
- overburden in advance
- procurement and contract management.

## 4.8 REMUNERATE FAIRLY AND RESPONSIBLY

### 4.8.1 SNAPSHOT

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY.		
How Macarthur Coal complies with Principle 8	Section reference	2011 Overview
8.1 The Board has in place a Nomination and Remuneration Committee (NRC) with a Board-approved Charter.	4.2.5	Key activities of the NRC included: <ul style="list-style-type: none"> <li>• Commissioning, receiving, reviewing and actioning recommendations from externally-facilitated reviews of remuneration for the Board, CEO and senior executives undertaken by Deloitte.</li> <li>• Commissioning a review of Macarthur Coal's overall reward strategy to improve the Company's ability to attract and retain high-performing people.</li> <li>• Approving an updated reward strategy.</li> <li>• Recommending the Board approve the Company's Diversity Policy and Paid Parental Leave Scheme.</li> </ul>
8.2 The NRC consists of a majority of Independent Directors, is chaired by an independent Director and has four members. Details of the NRC's membership and attendance at meetings have been provided in section 3.	3	
8.3 The Company's Remuneration Policy clearly distinguishes the structure of Non-Executive Directors' remuneration from that of the Executive Director and senior executives. For Non-Executive Directors there is no scheme for retirement benefits, other than superannuation.	5.2	
The Remuneration Report (which forms part of the Directors' Report) in section 5, explains how Macarthur Coal's remuneration structure complies with the elements of Principle 8.	5.3.1	
8.3 There has been no departure from the Guide to reporting on Principle 8. The Company's Share Trading Policy prohibits Directors and employees from hedging the economic risk of a holding in unvested shares in the Company. The Share Trading Policy and NRC Charter are available on the Company's web site.	4.8	

Action shot from inside Coppabella's CHPP - coal being processed through the plant's feed desliming screen.



# DIRECTORS' REPORT CONTINUED

## 5. REMUNERATION REPORT

The Remuneration Report provides an overview of the Macarthur Coal Group's Remuneration Policy and how it aligns Key Management Personnel performance with the Company's strategic direction and performance. It also sets out remuneration specifics for those Key Management Personnel.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The structure of the Remuneration Report is as follows:

	WHAT IT COVERS	SECTION REFERENCE
Key Management Personnel	Who they are	5.1
Non-Executive Director remuneration	Components of Non-Executive Director remuneration Non-Executive Directors' shareholding and interests	5.2
Senior Executive Remuneration	Components of Executive remuneration including: <ul style="list-style-type: none"> <li>• Total Fixed Remuneration (TFR)</li> <li>• Short Term Incentive Plan (STIP)</li> <li>• Retention bonuses</li> <li>• Long Term Incentive Plan (LTIP)</li> <li>• Employment contracts</li> </ul>	5.3
Key Management Personnel	Directors' and Executive Officers' Remuneration Table	5.4
Employee Share Plans	Summary of Employee share plans	5.5
Consequences of Performance on Shareholder Wealth	Link between Company performance and shareholder wealth	5.7

**Product coal straight from the CHPP** – Coppabella Mine's CHPP has the capacity to produce 800tph of product coal and it is transferred via a conveyor to specific stockpiles awaiting transport.





## 5.1 KEY MANAGEMENT PERSONNEL (KMP)

The Key Management Personnel of the group are those people responsible for planning, directing and controlling the activities of the group throughout the year. The KMP referred to in the Remuneration Report include:

- Non-Executive Directors – there were six Non-Executive Directors during the year
- Senior Executives – as at 30 June 2011, there were seven Senior Executives including the Chief Executive Officer (CEO) and Managing Director (MD), Nicole Hollows
- Former Executives – there are three Former Executives referred to in the Remuneration Report as they were either senior executives for part of the year or were one of the highest paid executives of the group.

KEY MANAGEMENT PERSONNEL				
DEFINED TERM	NAME	POSITION	DATE APPOINTED	
NON-EXECUTIVE DIRECTORS	As at 30 June 2011			
	Keith DeLacy	Chairman, Independent, Non-Executive Director	5 July 2001	
	Roger Marshall	Deputy Chairman, Independent, Non-Executive Director	5 July 2001	
	Peter Forbes	Independent, Non-Executive Director	14 November 2003	
	Chen Zeng	Non-Executive Director	23 July 2007	
	Martin Kriewaldt	Independent, Non-Executive Director	13 October 2008	
	Terry O'Reilly	Independent, Non-Executive Director	13 October 2008	
EXECUTIVES	As at 30 June 2011			
	SENIOR EXECUTIVES	Nicole Hollows	Chief Executive Officer Managing Director	CEO: 7 January 2007 MD: 28 June 2007
		Gary Lee	Vice President, Marketing Chief Development Officer	19 January 2004 Effective from 1 September 2010
		Lisa Dalton	EGM Corporate Services & Company Secretary	24 May 2007
		Graham Yerbury	Chief Financial Officer	6 September 2010
		Rod Dyer	EGM Projects	16 November 2010
		Scott Croger	Vice President, Marketing	1 September 2010
		Allan Fidock	EGM Operations	1 February 2011
	FORMER EXECUTIVES	Michael Gray	EGM Projects & Infrastructure	20 July 2009 Appointed: CEO of Middlemount effective 15 September 2010
		Peter Kane	Chief Operating Officer	18 February 2008 Resigned: effective 18 February 2011
		Brian Spencer <sup>1</sup>	General Manager – Coppabella	14 July 2008 Resigned: effective 16 March 2011

<sup>1</sup> Denotes one of the five (5) highest paid executives of the group, as required to be disclosed under the *Corporations Act 2001*.

# DIRECTORS' REPORT CONTINUED

## 5.2 PRINCIPLES OF NON-EXECUTIVE DIRECTOR REMUNERATION

Details of the Non-Executive Directors of the Company for the year ended 30 June 2011 are provided in section 1 of the Directors' Report.

Remuneration levels for Non-Executive Directors are set to reflect the demands on the Directors and the responsibility they carry and to align with time commitments expected of them in carrying out their role.

### 5.2.1 COMPONENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION

The various components of remuneration for Non-Executive Directors are outlined below:

AGGREGATE REMUNERATION AMOUNT		
The aggregate remuneration permitted to be paid to Non-Executive Directors that has been approved by shareholders at the AGM in November 2008 is \$1.6 million per annum.		
COMPONENTS OF NON-EXECUTIVE DIRECTOR REMUNERATION		
Remuneration for Non-Executive Directors consists of:		
<ul style="list-style-type: none"> <li>• Board Fees as remuneration for Board membership with Chairman responsibilities earning an additional amount.</li> <li>• Committee Fees as remuneration for Committee membership with Committee Chairman responsibilities earning an additional amount.</li> <li>• Macarthur Coal Shares accrued on a daily basis, purchased on market after the announcement of the half year and full year financial results of the Company.</li> </ul>		
BASE FEES		
Non-Executive Directors' fees are determined by the NRC and set by the Board and fall within the aggregate amount approved by the shareholders.		
Current fees for Directors, which have remained unchanged since 2007 are:		
<ul style="list-style-type: none"> <li>• Chairman \$70,000 per annum</li> <li>• Non-Executive Director \$45,000 per annum</li> </ul>		
COMMITTEE FEES		
Committee fees are determined by the NRC and set by the Board and also fall within the aggregate amount approved by shareholders. Increases in Committee Fees for the Chairmen of the Audit and Risk Management Committee, the Nomination and Remuneration Committee and the Special Projects Committee were approved in 2010.		
BOARD COMMITTEE	CHAIRMAN \$ PER ANNUM	MEMBER \$ PER ANNUM
Audit and Risk Management Committee	30,000	15,000
Nomination and Remuneration Committee	20,000	10,000
Special Projects	20,000	10,000
MACARTHUR COAL SHARES		
Non-Executive Directors are also entitled to receive 10,000 shares per annum and the Chairman 15,000 shares per annum to strengthen alignment with shareholder interests pursuant to the Directors' Share Plan. A Director's entitlement to shares accrues on a daily basis and will generally be allocated to a Director after the announcement of the half year results and the full year results. The shares are purchased on market in appropriate trading windows. Shares purchased are not subject to disposal restrictions. If a Director ceases to be a Director of the Company and has an outstanding entitlement to be allocated shares, either the shares will be acquired in the Director's name or the Director will receive a cash equivalent for the value of the shares, at the Board's discretion. Directors receive their entitlement to shares irrespective of Company performance.		
SUPERANNUATION		
Statutory superannuation contributions are made on behalf of Non-Executive Directors in accordance with the law. Fees set out above include any superannuation payable.		
OTHER FEES/BENEFITS		
The Company's Constitution permits:		
<ul style="list-style-type: none"> <li>• Additional fees to be paid to Non-Executive Directors for additional services. Since 1 December 2010 Terry O'Reilly has been paid additional fees of \$30,000 per annum as a nominee of the Company on the Board of Middlemount Coal Pty Ltd.</li> <li>• Non-Executive Directors to be reimbursed for all business related expenses including travel in the discharge of their duties. Permitted reimbursements were made during the year.</li> <li>• In addition: <ul style="list-style-type: none"> <li>• non-cash benefits including superannuation contributions above the statutory amount are able to be salary sacrificed. There are no retirement benefits in place and the Company does not make sign-on payments to new Directors</li> <li>• the Company contributed to professional development activities for some Non-Executive Directors during the year</li> <li>• there were no performance-based remuneration amounts paid or options granted to Non-Executive Directors during the year.</li> </ul> </li> </ul>		

### 5.2.2 NON-EXECUTIVE DIRECTORS' SHAREHOLDING AND INTERESTS

The relevant interest of each Non-Executive Director in the shares or options over shares issued by the Company and other related bodies corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

MACARTHUR COAL LIMITED		
Non-Executive Directors	Ordinary shares	Options over ordinary shares
Keith DeLacy	234,240	Nil
Roger Marshall	181,740	Nil
Peter Forbes	79,740	Nil
Chen Zeng	30,500	Nil
Martin Kriewaldt	27,003	Nil
Terry O'Reilly	265,484	Nil

Non-Executive Directors received Macarthur Coal shares during the year in accordance with the Director Share Plan. On 30 August 2010, Directors received their second tranche of shares for the 2010 financial year. On 10 March 2011, Directors received the first tranche of shares for the 2011 financial year. The second tranche of shares for the 2011 financial year are anticipated to be purchased for Directors on market in the trading window following the release of the 2011 full year results, provided Directors are not in possession of price-sensitive information.

### 5.3 PRINCIPLES OF EXECUTIVE REMUNERATION (INCLUDING MANAGING DIRECTOR REMUNERATION)

Macarthur Coal's Board approved 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 performance linked 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, Corporate, group and individual performance and relevant market conditions.



Overlooking a busy pit at the Moorvale Mine – drill and blast preparations in the foreground and overburden removal activities in the background.

# DIRECTORS' REPORT CONTINUED

## 5.3.1 COMPONENTS OF EXECUTIVE REMUNERATION

Executive remuneration for the 2011 financial year had two key components:

REMUNERATION COMPONENT	ELEMENTS	DETAILS
<b>Fixed Annual Remuneration (Base salary plus statutory superannuation)</b>	Annual base salary is generally reviewed at the end of each financial year and applicable from 1 July each year	Annual base salary 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	Statutory % of base salary.
<b>Performance Linked Remuneration</b>	Short Term Incentive (STI)	Assessment based on annual performance at a corporate and individual level.
	Long Term Incentive (LTI)	Assessment based on creation of shareholder value over a three year performance period.  The performance period for performance rights forming part of executives remuneration in 2009 concluded on 30 June 2011 and shares under the LTI Plan for the 2009 performance rights will be purchased on market in the trading window after the release of the 2011 results. Refer to section 5.3.8 for further information on the performance hurdles and the awards to be made under the LTI Plan in the 2011 financial year.

The fixed and performance linked components of remuneration varies for each Executive. The proportions of remuneration for each of the Executives that are linked to performance and those that are fixed are summarised in the table below.

MACARTHUR COAL LIMITED				
	Fixed Remuneration		Performance Linked Remuneration	
	Base salary + Superannuation		Short Term Incentive	Long Term Incentive
	2011 %		2011 %	2011 %
<b>SENIOR EXECUTIVES</b>				
Nicole Hollows	47.6%		28.6%	23.8%
Gary Lee	62.4%		18.8%	18.8%
Lisa Dalton	62.4%		18.8%	18.8%
Graham Yerbury	62.4%		18.8%	18.8%
Rod Dyer	52.6%		26.3%	21.1%
Scott Croger	71.4%		14.3%	14.3%
Allan Fidock	71.4%		14.3%	14.3%

When STI Targets (that are performance linked over a one-year period) and LTI (performance targets over a three-year period) are met, then the amount of performance linked remuneration increases reflecting the Board's objective to reward arrangements that comprise appropriate performance linked incentives based on financial and non-financial performance measures that are relevant to the business and connected to the individual's actual accountabilities.

## 5.3.2 TOTAL FIXED REMUNERATION (TFR)

The Total Fixed Remuneration for each Executive and employee is reviewed annually based on the individual's performance and effectiveness, the group's circumstances and the indicative market levels of fixed and total reward for comparable roles from salary survey information provided by remuneration consultants. Salary increases for executives are approved by the Nomination and Remuneration Committee. Any salary increase for the CEO requires approval of the Non-Executive Directors.

All staff including Executives underwent a review of their performance and where appropriate, and in accordance with the principles in the Remuneration Policy, increases in total fixed remuneration were made to be effective from 1 July 2011.

## 5.3.3 SHORT TERM INCENTIVE PLAN (STIP)

The goal of the Short Term Incentive Plan is to focus attention on short term strategic and financial objectives. The quantum of the award varies based on the year's accomplishments, corporate, group and individual performance as well as a person's position and level of responsibility.

The STIP provides employees with an opportunity to earn an amount that is additional to their TFR. The additional amount is performance linked and underpinned by the employees' role and responsibility.

Corporate, group and individual performance targets were set for each executive and linked to corporate strategy and each executive's area of responsibility. The targets and potential reward outcomes are designed to encourage executives to strive for exceptional performance while demonstrating leadership in the group's values and culture.

The Board retains an overall discretion on whether to pay all, a portion of, or no STI.

A summary of the STIP in operation for the 2011 financial year was as follows:

CORPORATE SHORT TERM INCENTIVE TARGETS
Corporate STI Targets were developed and applied across the business. The corporate STIs for all employees were linked to the critical areas of safety, profit and cost. Executives and Senior Leaders in the business had additional Corporate STIs applicable to people and culture.
GROUP/INDIVIDUAL SHORT TERM INCENTIVE TARGETS
Specific group/individual STI Targets were also put in place to ensure the Group continued to drive superior individual performance relative to a person's position and level of responsibility. Each individual had between two to four STI Targets in addition to the Corporate STI Targets.
MINE SITE – SHORT TERM INCENTIVE TARGETS
To ensure the workforce and site staff were working towards the achievement of the budgeted production targets safely, a group STI Target structure for the individual portion of the STIs for the minesite was implemented. The group STI structure included safety, environmental, profit and production targets. This approach aligned achievement of minesite targets and was supported by the inter-dependence of departments on the site i.e. Production/Maintenance/Technical Services.

**5.3.4 MAXIMUM STI ENTITLEMENT**

Short Term Incentive entitlements as a maximum percentage of total fixed remuneration for 2011 were:

POSITION	2011
CEO and Managing Director	60%
Senior Executives	20-50%
Other executives and senior leaders	10-20%
Employees	10%

Specific information relating to amounts of STI paid to executives is set out in section 5.4

**5.3.5 RETENTION BONUSES**

In 2010, a retention plan was established by the Board following a period of intense corporate activity. The retention plan was put in place to mitigate the real risk of a talent exodus from the business caused by the period of corporate activity which included four change of control proposals from Peabody Energy Corporation and two change of control proposals from New Hope Corporation. The retention plan provided a financial incentive for staff to stay and work towards continuation of business at Macarthur Coal. For KMP, the retention plan consisted of a cash incentive linked to TFR for remaining in the employment of the Group for a 12 month period ending 31 March 2011. The retention plan met its objectives with a voluntary retention rate for the 2011 financial year of 90%.



**Operator David Cole about to start his shift** – the majority of Macarthur's 900 employees and contractors are based at the Coppabella Mine, with 488 people working at this site.

# DIRECTORS' REPORT CONTINUED

## 5.3.6 ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the retention bonuses and the vesting profile of the STI cash bonuses awarded as remuneration to each of the relevant group executives are detailed below.

EXECUTIVES	RETENTION BONUS		SHORT TERM INCENTIVE BONUS	
	Included in Remuneration <sup>1</sup> \$	Included in Remuneration <sup>2</sup> \$	STI vested in year %	STI forfeited in year <sup>3</sup> %
Nicole Hollows	343,750	431,640	65%	35%
Gary Lee	121,875	75,143	58%	42%
Lisa Dalton	128,125	76,380	67%	33%
Graham Yerbury	-	51,681	53%	47%
Rodney Dyer	-	79,225	59%	41%
Scott Croger	56,250	43,690	64%	36%
Allan Fidock <sup>4</sup>	93,750	38,400	48%	52%
Michael Gray <sup>5</sup>	50,285	14,398	65%	35%

1 Amounts relate to balance of Retention Plan expense to be recognised in the 2011 financial year being approved in the prior financial year as discussed in Section 5.3.5 on page 89. For recognition purposes the expense relating to the Retention Plan has been recognised over the retention period of 1 April 2010 to 31 March 2011 however full retention payments were made during the 2011 financial year.

2 Amounts included in remuneration for the financial year represent that amount that vested in the financial year based on achievement of STI Targets. No amounts vest in future years in respect of the bonus scheme for the 2011 financial year.

3 The amounts forfeited are due to some STI targets not being met in relation to the current financial year.

4 While KMP from 1 February 2011, bonuses have been disclosed for the full 12 month period given Mr Fidock is one of the five highest paid earners of the Group, as required to be disclosed under the *Corporations Act 2001*.

5 Bonus awarded on pro-rata basis for the period Mr Gray was KMP subject to performance measures being met.

**Water management at the Coppabella Mine** – additional pumping capacity and a new pipeline were installed during FY2011 to transfer water from operational pits to on-site storage dams and non-operational pits.



### 5.3.7 SUMMARY OF LONG TERM INCENTIVE PLAN (LTIP)

#### LTIP OBJECTIVE

The LTIP was established in the 2009 financial year. The LTIP is an equity-based incentive designed to provide Executives and other nominated senior leaders (participants) with the incentive to deliver long-term growth in shareholder value. The LTIP grant to each participant is determined based on the strategic importance of the participant in creating shareholder value.

#### PARTICIPANTS

The CEO, Senior Executives and other Senior Leaders nominated by the Board, are eligible to participate in the LTIP. There were nine employees remaining as active participants in the plan at 30 June 2011.

#### PERFORMANCE RIGHTS

Since the establishment of the plan, eligible participants receive performance rights on an annual basis, subject to the approval of the NRC. The percentages of TFR entitlement for participants under the LTIP is set out in the following table:

LONG TERM INCENTIVE PLAN GRANT (MAXIMUM % OF TFR)	
Position	2011
CEO	50%
Senior Executives	20-40%
Senior Leaders	10-20%

The number of performance rights granted to participants is equivalent to the relevant percentage of TFR determined by the NRC divided by the Volume Weighted Average Share Price of Macarthur Coal shares in a period determined by the NRC.

Performance rights are granted at no cost to the participants. Each performance right granted entitles a participant to one ordinary share in the Company, subject to satisfaction of performance conditions set by the Board and NRC in respect of the grant, over a performance period of three financial years.

#### PERFORMANCE CONDITIONS

The extent to which performance rights will vest, and shares are allocated to participants, is subject to performance conditions based on the following three measures of Company performance (over the relevant three year performance period):

Proportion of performance rights to which performance measure applies	Performance measure
30%	Growth in the Company's Earnings Per Share (EPS)
50%	Total Shareholder Return (TSR) relative to companies in the ASX S&P 300 Accumulation Index
20%	Return on Invested Capital (ROIC)

#### WHY THESE TARGETS WERE SELECTED

The Board selected the performance measures on the basis that they provide:

- alignment between comparative shareholder return and reward for participants and a relative, external, market based performance measure against similar comparator companies (TSR)
- a relevant indicator of measuring increases in shareholder value (EPS)
- suitable line of sight to encourage performance by the participants.

#### EARNINGS PER SHARE

Thirty percent of performance rights granted to a participant will vest based on growth in the Company's EPS over the three-year performance period. For any performance rights subject to the EPS hurdle to vest, the Company's EPS growth must be at least equal to the base target set by the NRC. For all the performance rights subject to the EPS hurdle to vest, the Company's EPS growth must be at least equal to the stretch target set by the NRC. For the performance rights granted in respect of the current plan, the base and stretch targets for EPS growth and the related vesting schedule, are as follows:

Average annual growth in EPS over three year performance period	Percentage of performance rights subject to EPS hurdle that vest
EPS growth below base target of 10% per annum	Nil
EPS growth at least equal to base target of 10% per annum but below stretch target of 15% per annum	50%
EPS growth at least equal to stretch target of 15% per annum	100%

# DIRECTORS' REPORT CONTINUED

## 5.3.7 SUMMARY OF LONG TERM INCENTIVE PLAN (LTIP) CONTINUED

### TOTAL SHAREHOLDER RETURN

Fifty percent of performance rights granted to a participant will vest based on the Company's TSR, that is, share price growth and reinvested dividends relative to the TSRs of companies in the ASX S&P 300 Accumulation Index (as at the start of the performance period) over the three year performance period. For the performance rights granted in respect of the current plan, the TSR performance condition applies as follows:

Macarthur Coal TSR performance over three year performance period relative to constituents of ASX S&P 300 Accumulation Index	Percentage of performance rights subject to TSR hurdle that 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
At or greater than the 75th percentile	100%

### RETURN ON INVESTED CAPITAL (ROIC)

Twenty percent of the performance rights granted to a participant will vest based on the Company's Return on Invested Capital (ROIC) performance over the three year performance period.

For any performance rights subject to the ROIC hurdle to vest, the Company's average ROIC must be at least equal to the base target set by the NRC. For all the performance rights subject to the ROIC hurdle to vest, the Company's average ROIC must be at least equal to the stretch target set by the NRC.

The performance rights granted in respect of the current plan, the base and stretch targets for ROIC, and the related vesting schedule, are as follows:

Average annual ROIC achieved over three year performance period	Percentage of performance rights subject to ROIC hurdle that vest
ROIC below base target of 12%	Nil
ROIC at least equal to base target of 12% but below stretch target of 15%	50%
ROIC at least equal to stretch target of 15%	100%

### ASSESSMENT OF PERFORMANCE

Assessment of performance is made by the Board at the end of each performance period. For the performance rights granted in respect of the 2009 financial year, the Board assessed performance against the TSR, EPS growth and ROIC performance hurdles. Refer to Section 5.3.8 for the outcome of the performance assessment of the performance rights awarded relating to the 2009 financial year.

### SHARES ACQUIRED UNDER LTIP

Shares to be allocated to participants under the LTIP (to the extent that performance rights vest) are acquired on market, avoiding dilution of shareholder equity. The shares are placed in trust for participants until such time as the participants request to have the shares transferred from the trust. No consideration is payable by the participants to be allocated the shares on vesting of rights or on transfer of shares from the trust. Shares carry full dividend and voting rights upon allocation to participants.

### CHANGE OF CONTROL

The Board has discretion to determine that some or all of the performance rights granted to participants that have not vested will vest in the event of a change of control of the Company.

### CESSATION OF EMPLOYMENT

If a nominated participant's employment ceases, before performance rights have vested, the participant will normally forfeit the performance rights, unless the participant dies or ceases employment in special circumstances e.g. as a result of redundancy or because the participant has become totally and permanently disabled. In addition to these guidelines, the Board has discretion to determine if other circumstances exist that result in the performance rights not being forfeited. In such cases, the extent to which any unvested performance rights will vest will be determined at the discretion of the Board.

### SUMMARY OF PERFORMANCE RIGHTS GRANTED

The terms and conditions of each performance right affecting remuneration in the current or a future reporting period are as follows:

Grant date	Tranche	Vesting date	Fair value of grant	Performance achieved
14 October 2008	FY09	30 June 2011	\$3.55	50% <sup>1</sup>
29 June 2009	FY10	30 June 2012	\$5.44	To be determined
30 June 2011	FY11	30 June 2013	\$7.31	To be determined

<sup>1</sup> Relates to the average percentage of performance rights vested across the three performance hurdles. Refer to section 5.3.8 for detailed assessment of the outcome of each LTIP performance hurdle.



### 5.3.8 OUTCOME OF ASSESSMENT OF LTIP PERFORMANCE HURDLES FOR THE 2009 PERFORMANCE RIGHTS

Performance rights granted under the LTIP relating to the 2009 financial year had a vesting date of 30 June 2011. Following is an assessment of the performance hurdles of EPS, ROIC and TSR for the performance period 1 July 2008 to 30 June 2011:

#### EARNINGS PER SHARE

The percentage of the 2009 Performance Rights linked to the EPS hurdle subject to vest is determined by the growth in EPS from the financial year immediately prior to the start of the Performance Period (base year) to the final financial year of the Performance Period, measured against specified EPS targets.

As the EPS for the 2008 financial year (the 'base year') was 36.6 cents per share, the minimum EPS required for the 2011 financial year to each respective base and stretch target is as follows:

Target	Annual EPS growth	Percentage of performance rights subject to vest	Minimum EPS at vesting date to meet target
Base target	Equal to or greater than 10% but below stretch target of 15%	50%	48.7 cents
Stretch target	Equal to or greater than 15%	100%	55.7 cents

The average annual growth rate along with the percentage of rights vested, based on 2011 financial year results is shown in the table below:

Vesting date	Base year EPS (FY08)	2011 NPAT	2011 Weighted Average No. of shares on issue <sup>1</sup>	EPS at 30 June 2011	Average annual growth	% of Rights subject to vest
30 June 2011	36.6 cents	\$241,390,000	291,686,234	82.8 cents	31.25%	100%

<sup>1</sup> EPS is calculated on weighted average number of shares on issue during the year

#### RETURN ON INVESTED CAPITAL (ROIC)

For the 2009 Performance rights, the ROIC over the three-year vesting period along with the calculated annual average over the period is assessed. The base target is an average annual ROIC of 12% and the stretch target is an average annual ROIC of 15%.

For this purpose, ROIC is calculated using the following formula:

$$\text{ROIC} = \frac{\text{Earnings before interest and tax}}{\text{Interest bearing debt} + \text{Shareholders equity}}$$

Assessment of ROIC is summarised in the table below. The outcome of 17.2% is above the stretch target of 15% and therefore 100% of the rights attached to the ROIC hurdle vested for the 2009 Performance Rights.

Performance Period	EBIT \$'000	Debt + equity \$'000	Actual ROIC at 30 June	% of rights subject to vest
2009	247,836	1,116,898	22.2%	
2010	170,841	1,228,017	13.9%	
2011	309,022	1,878,746	16.4%	
<b>ANNUALISED AVERAGE</b>	<b>242,566</b>	<b>1,407,904</b>	<b>17.2%</b>	<b>100%</b>

#### TOTAL SHAREHOLDER RETURN (TSR)

For the 2009 Performance Rights, TSR was calculated by an independent third party comparing Macarthur Coal's TSR performance against a comparator group listed in the S&P ASX 300 Index as at the start of the Performance Period (1 July 2008). The comparator group comprised 295 companies.

The companies in the comparator group were ranked by their TSR performance:

- 50% of the relative TSR portion of the 2008 Performance Rights were to vest if Macarthur Coal ranked at the median of the peer group
- 100% were to vest if Macarthur Coal ranked at the upper quartile or above of the peer group
- In the event that the TSR was between the median and the upper quartile of the comparator companies, the level of vesting was to be 50% plus 2% for every one percentile increase in Macarthur Coal's relative position.

In the period 1 July 2008 to 30 June 2011, Macarthur Coal achieved a TSR of -40.707% and ranked at the 40th percentile. The negative TSR during the three-year period was, in part, the result of sustained impacts of the global financial crisis on global equity markets. In the case of Macarthur Coal, the reduction in TSR was accentuated as the Company was subject to takeover speculation during the first half of 2008.

Based on the percentile ranking, none of the TSR portion of the 2009 Performance rights vested on 30 June 2011.

# DIRECTORS' REPORT CONTINUED

## 5.3.9 VESTING PROFILES OF PERFORMANCE RIGHTS

A summary of vesting profiles of the performance rights granted as remuneration to each of the key management personnel of the group are detailed below:

	RIGHTS GRANTED		VESTED		FORFEITED <sup>1</sup>		VALUE OF RIGHTS FORFEITED <sup>2</sup>
	NO.	TRANCHE	NO.	%	NO.	%	\$
<b>Key Management Personnel</b>							
Nicole Hollows	FY09	19,218	9,609	50	9,609	50	105,219
	FY10	47,543	-	-	-	-	-
	FY11	45,342	-	-	-	-	-
Gary Lee	FY09	7,495	3,748	50	3,748	50	41,041
	FY10	18,542	-	-	-	-	-
	FY11	10,635	-	-	-	-	-
Lisa Dalton	FY09	3,997	1,999	50	1,999	50	21,889
	FY10	13,074	-	-	-	-	-
	FY11	9,398	-	-	-	-	-
Graham Yerbury	FY11	7,997	-	-	-	-	-
Rod Dyer	FY11	8,862	-	-	-	-	-
Scott Croger	FY11	4,946	-	-	-	-	-
Allan Fidock <sup>3</sup>	FY11	2,473	-	-	-	-	-
<b>Former Executives</b>							
Peter Kane <sup>4</sup>	FY09	11,531	-	-	11,531	100	142,523
	FY10	28,526	-	-	28,526	100	352,581
Michael Gray <sup>5</sup>	FY09	3,844	1,922	50	1,922	50	21,046
	FY10	9,509	-	-	-	-	-
	FY11	1,217	-	-	-	-	-
Brian Spencer <sup>6</sup>	FY10	5,135	-	-	5,135	100	56,228
Stuart Hatton <sup>7</sup>	FY09	6,558	-	-	6,558	100	56,333
	FY10	18,542	-	-	18,542	100	159,276

1 The number and % forfeited in the year represents the reduction from the maximum number of rights available to vest due to performance criteria not being achieved or where an Executive has resigned and therefore forfeited the rights.

2 Value of rights forfeited are based on the number of rights forfeited at the closing share price on 30 June 2011.

3 Allan Fidock was appointed to Executive General Manager Operations on 1 February 2011 and was therefore considered to be one of the key management personnel from that date. Given that Mr Fidock was one of the top five earners in the Group (section 300A(1)(c) of the *Corporations Act 2001*) for the 2011 financial year, remuneration has been disclosed for the full 12 months.

4 Peter Kane resigned effective 18 February 2011. The value of rights forfeited is based on the closing share price on 18 February 2011.

5 Michael Gray was appointed to the position of CEO of Middlemount Coal Pty Ltd on 15 September 2010 and was no longer a key management personnel of the Macarthur Coal Group from that date. Mr Gray was awarded performance rights for the 2011 financial year based on the period he was a key management personnel of the Group.

6 Brian Spencer resigned effective 16 March 2011. The value of rights forfeited is based on the closing share price on 16 March 2011.

7 Stuart Hatton resigned effective 30 October 2009. The value of rights forfeited is based on the closing share price on 30 October 2009.

### 5.3.10 SUMMARY OF REMUNERATION ARRANGEMENTS FOR NICOLE HOLLOWS, CEO AND MANAGING DIRECTOR AND OTHER SENIOR EXECUTIVES

Section 5.4 contains a remuneration table prepared and audited in accordance with the requirements of the *Corporations Act 2001* and the Accounting Standards. This section explains how the amount of compensation in the 2011 financial year for Executives was determined and how the terms of their contracts affect compensation in future reporting periods.

#### • Managing Director and CEO, Nicole Hollows

The CEO received a remuneration review in April 2010 as reported in last year's remuneration report and that remuneration applied for the whole of the financial year.

#### • Other CEO and Senior Executive Remuneration Arrangements

The CEO and other Senior Executives also became entitled to Macarthur Coal shares under the Long Term Incentive Plan (LTIP) for performance rights granted relating to the 2009 financial year. The value of Macarthur Coal shares at 30 June 2011 to be awarded under the LTIP to senior executives is set out below, together with details of remuneration earned.

2011 REMUNERATION FOR SENIOR EXECUTIVES				
Senior Executives	TFR <sup>1</sup>	STI Payment (performance linked) <sup>2</sup>	Retention Bonus <sup>3</sup>	Value of MCC shares at 30 June 2011 awarded under LTIP for 2009 performance rights <sup>4</sup>
Nicole Hollows	\$1,100,000	\$431,640	\$550,000	\$105,219
Gary Lee	\$430,000	\$75,143	\$195,000	\$41,041
Lisa Dalton	\$380,000	\$76,380	\$190,000	\$21,889
Graham Yerbury <sup>5</sup>	\$328,788	\$51,681	-	-
Rod Dyer <sup>5</sup>	\$246,449	\$79,225	-	-
Scott Croger	\$340,000	\$43,690	\$150,000	\$8,136 <sup>6</sup>
Allan Fidock	\$337,500	\$38,400	\$150,000	\$9,121 <sup>6</sup>

1 TFR is the actual amount of total fixed remuneration being base salary and superannuation paid to senior executives in the FY2011.

2 The STI is the amount of incentive earned by the senior executive in the 2011 financial year. The STI is due for payment in September 2011.

3 Retention bonuses were paid to in two instalments during the year for remaining in the employment of the Group over a 12 month period as discussed in Section 5.3.5 on page 89. Amounts shown relate to cash payments received by executives during the year, not the expense recognised by the Group for the year as per table 5.3.6, which requires the payments to be recognised evenly over the retention period (April 2010 – March 2011).

4 Value is determined by the number of shares to be awarded (no. shown vested in previous table) multiplied by the closing share price at 30 June 2011. Shares are to be purchased on market in the trading window after the release of the full year results.

5 TFR shown from date of appointment during year to 30 June 2011.

6 Performance rights awarded prior to becoming Key Management Personnel (KMP).

The relevant interest of the CEO's shares or options over shares issued by the Company and other related bodies corporate, as notified to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

CEO'S SHARES, PERFORMANCE RIGHTS AND OPTIONS			
CEO	Ordinary shares <sup>1</sup>	Performance rights <sup>2</sup>	Options over ordinary shares
Nicole Hollows	38,356	102,494	Nil

1 MCC ordinary shares owned by Nicole Hollows at 30 June 2011.

2 2009, 2010 and 2011 performance rights granted to Nicole Hollows. This figure includes 9,609 performance rights which vested on 30 June 2011 and which will be converted to MCC shares pursuant to the Long Term Incentive Plan and 92,885 performance rights which are still subject to performance conditions in the future. Shares for the 9,609 rights which vested at 30 June 2011 will be purchased on market in the trading window after the release of the 2011 full-year results, provided the CEO is not in possession of price-sensitive information.

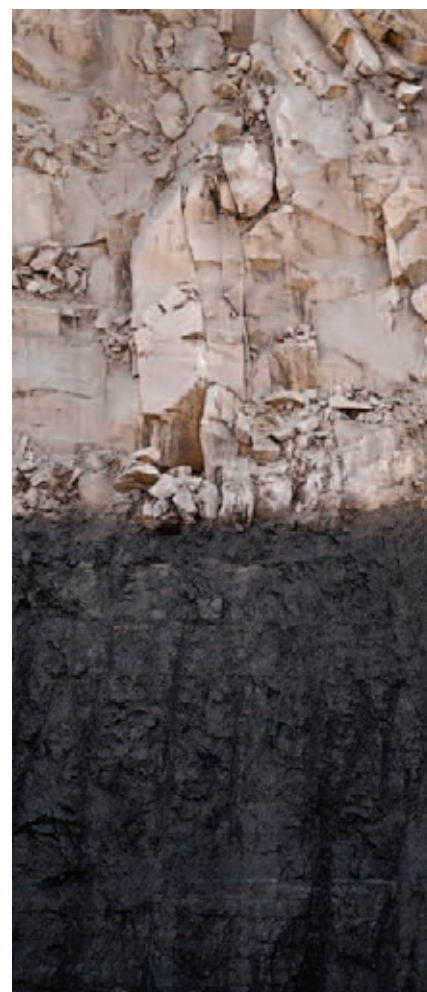
# DIRECTORS' REPORT CONTINUED

## 5.3.11 CEO AND EXECUTIVE EMPLOYMENT CONTRACTS

The Group has entered into employment contracts with each executive. Each contract provides for participation in the STIP and LTIP, subject to the Board's discretion and has an open term, subject to rights of termination given to the employee and the Group. A summary of the key provisions of the employment contracts for the CEO and senior executives is set out in the following table:

NAME	NOTICE TO BE GIVEN BY EXECUTIVE	NOTICE TO BE GIVEN BY GROUP <sup>1</sup>	MAXIMUM TERMINATION PAYMENT <sup>2</sup>	OTHER PAYMENTS <sup>3</sup>
<b>Current Senior Executives</b>				
Nicole Hollows	3 months	12 months	12 months (termination) 24 months (redundancy)	No
Gary Lee	3 months	3 months	12 months (redundancy)	No
Lisa Dalton	3 months	3 months	12 months (redundancy)	No
Graham Yerbury	3 months	3 months	12 months (redundancy)	No
Rodney Dyer	3 months	3 months	12 months (redundancy)	No
Scott Croger	3 months	3 months	12 months (redundancy)	No
Allan Fidock	2 months	3 months	12 months (redundancy)	No

- 1 Payments may be made in lieu of notice period; Executives can also be terminated without notice for gross misconduct; The Executives are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long-service leave, together with any superannuation benefits.
- 2 The CEO's contract of employment specifies a 12-month termination payment and in the event that the CEO is made redundant, an entitlement to a 12-month redundancy payment in addition to the 12-month termination payment (total 24-month redundancy payment) as approved by Shareholders in 2010. Executives (other than the CEO) do not have a contractual right to a termination payment above their notice period except in the case of redundancy. Should an executive (other than the CEO) become redundant, they are entitled to 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. Note that in all contracts, the Group retains the right to terminate the employment contract without notice for gross misconduct.
- 3 Other payments include housing allowances, motor vehicle allowances and relocation allowances.



**Snapshot of Coppabella Mine's coal seam in FY2011** - the seam was first discovered in April 1997 within the Coppabella exploration tenement, then owned by Macarthur Coal Pty Ltd - a privately owned company led by Ken Talbot.

#### 5.4 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION - YEAR ENDED 30 JUNE 2011

Details of the nature and amount of each major element of remuneration of each Director of the Group and each relevant Group Executive are:

		SHORT TERM				POST EMPLOYMENT BENEFITS - SUPERANNUATION	LONG TERM EMPLOYEE BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT		TOTAL	PROPORTION OF REMUNERATION PERFORMANCE RELATED	VALUE OF OPTIONS AND RIGHTS AS A PROPORTION OF REMUNERATION
		SALARY & FEES	STI CASH BONUS	NON- MONETARY BENEFITS	TOTAL				SHARES	OPTIONS AND RIGHTS <sup>1</sup>			
DIRECTORS		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
<b>Non-Executive</b>													
<b>Keith Delacy</b>													
	2011	82,951	-	13,736	96,687	15,382	-	-	145,039	-	257,108	0%	0%
	2010	82,569	-	10,100	92,669	7,431	-	-	146,353	-	246,453	0%	0%
<b>Roger Marshall</b>													
	2011	59,633	-	13,736	73,369	5,367	-	-	114,189	-	192,925	0%	0%
	2010	59,633	-	8,650	68,283	5,367	-	-	146,353	-	220,003	0%	0%
<b>Peter Forbes</b>													
	2011	87,156	-	13,736	100,892	7,844	-	-	114,850	-	223,586	0%	0%
	2010	73,394	-	9,744	83,138	6,605	-	-	146,138	-	235,881	0%	0%
<b>Chen Zeng</b>													
	2011	50,459	-	13,736	64,195	4,541	-	-	114,189	-	182,925	0%	0%
	2010	50,459	-	8,650	59,109	4,541	-	-	146,353	-	210,003	0%	0%
<b>Martin Kriewaldt</b>													
	2011	59,633	-	13,736	73,369	5,367	-	-	113,195	-	191,931	0%	0%
	2010	50,459	-	9,744	60,203	4,541	-	-	121,674	-	186,418	0%	0%
<b>Terry O'Reilly</b>													
	2011	60,084	-	13,736	73,820	30,750	-	-	114,189	-	218,759	0%	0%
	2010	15,992	-	8,650	24,642	49,008	-	-	121,674	-	195,324	0%	0%
<b>Executive</b>													
<b>Nicole Hollows - Chief Executive Officer</b>													
	2011	1,049,315	775,390	49,755	1,874,460	25,000	20,572	-	-	68,217	1,988,249	25%	3%
	2010	749,246	774,450	43,699	1,567,395	25,000	123,535	-	-	158,897	1,874,827	39%	8%
<b>Total Remuneration - All Directors</b>													
	<b>2011</b>	<b>1,449,231</b>	<b>775,390</b>	<b>132,171</b>	<b>2,356,792</b>	<b>94,251</b>	<b>20,572</b>	<b>-</b>	<b>715,651</b>	<b>68,217</b>	<b>3,255,483</b>		
	<b>2010</b>	<b>1,081,752</b>	<b>774,450</b>	<b>99,237</b>	<b>1,955,439</b>	<b>102,493</b>	<b>123,535</b>	<b>-</b>	<b>828,545</b>	<b>158,897</b>	<b>3,168,909</b>		

1 Remuneration in the form of share based payments includes negative amounts for performance rights forfeited during the year.

# DIRECTORS' REPORT CONTINUED

## 5.4 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION - YEAR ENDED 30 JUNE 2011 CONTINUED

		SHORT TERM				POST EMPLOYMENT BENEFITS - SUPER-ANNUATION	LONG TERM EMPLOYEE BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENT		TOTAL	PROPORTION OF REMUNERATION RELATED	VALUE OF OPTIONS AND RIGHTS AS A PROPORTION OF REMUNERATION
		SALARY & FEES	STI CASH BONUS	NON-MONETARY BENEFITS	TOTAL				SHARES	OPTIONS AND RIGHTS <sup>1</sup>			
		\$	\$	\$	\$	\$	\$	\$	\$	\$			
<b>Executives</b>													
<b>Gary Lee - Chief Development Officer, Macarthur Coal Limited</b>													
	2011	377,425	197,018	16,300	590,743	50,000	13,593	-	-	26,558	680,894	15%	4%
	2010	346,189	164,385	10,152	520,726	49,999	8,077	-	-	61,347	640,149	24%	10%
<b>Lisa Dalton - Executive General Manager Corporate Services and Company Secretary, Macarthur Coal Limited</b>													
	2011	295,035	204,505	60,591	560,131	25,000	6,686	-	-	17,056	608,873	15%	3%
	2010	313,319	170,080	23,170	506,569	25,000	3,393	-	-	32,489	567,451	25%	6%
<b>Graham Yerbury - Chief Financial Officer, Macarthur Coal Limited</b>													
(Appointed 06/09/2010)	2011	296,775	51,681	16,250	364,706	33,646	-	-	-	53	398,405	13%	0%
	2010	-	-	-	-	-	-	-	-	-	-	0%	0%
<b>Rodney Dyer - Executive General Manager Projects, Macarthur Coal Limited</b>													
(Appointed 16/11/2010)	2011	245,677	79,225	12,163	337,065	10,821	-	-	-	59	347,945	23%	0%
	2010	-	-	-	-	-	-	-	-	-	-	0%	0%
<b>Scott Croger - Vice President Marketing, Macarthur Coal Limited</b>													
(Appointed 01/09/2010)	2011	276,048	99,940	15,138	391,126	20,833	8,768	-	-	4,404	425,131	11%	1%
	2010	-	-	-	-	-	-	-	-	-	-	0%	0%
<b>Allan Fidock - Executive General Manager Operations, Macarthur Coal Limited<sup>2</sup></b>													
(Appointed 01/02/2011)	2011	294,411	132,150	66,859	493,420	25,000	4,201	-	-	5,903	528,524	8%	1%
	2010	-	-	-	-	-	-	-	-	-	-	0%	0%
<b>Former Executives</b>													
<b>Michael Gray - Executive General Manager, Projects and Infrastructure, Macarthur Coal Limited</b>													
(Appointed CEO Middlemount 15/09/2011)	2011	57,977	64,683	11,888	134,548	5,246	-	-	-	13,592	153,386	18%	9%
	2010	246,334	104,111	44,945	395,390	23,672	5,774	-	-	36,138	460,974	17%	8%
<b>Peter Kane - Chief Operating Officer, Macarthur Coal Limited</b>													
(Resigned 18/02/2011)	2011	280,358	56,250	14,897	351,505	17,960	-	-	-	(69,008)	300,457	(23%)	(23%)
	2010	422,442	213,075	22,351	657,868	25,000	2,966	-	-	78,997	764,831	27%	10%
<b>Brian Spencer - General Manager, Coppabella and Moorvale Joint Venture, Macarthur Coal Mine Management Pty Ltd</b>													
(Resigned 16/03/2011)	2011	251,159	103,125	25,608	379,892	37,448	-	257,539	-	(7,777)	667,102	(1%)	(1%)
	2010	297,648	98,258	30,864	426,770	43,883	-	-	-	7,726	478,379	9%	2%
<b>Stuart Hatton - Chief Financial Officer, Macarthur Coal Limited</b>													
(Resigned 30/10/2009)	2011	-	-	-	-	-	-	-	-	-	-	0%	0%
	2010	127,810	-	7,367	135,177	10,356	-	-	-	(6,289)	139,244	(5%)	(5%)
<b>Shane Stephan - Chief Development Officer, Macarthur Coal Limited</b>													
(Resigned 21/8/2009)	2011	-	-	-	-	-	-	-	-	-	-	0%	0%
	2010	114,331	-	1,434	115,765	3,887	-	-	-	-	119,652	0%	0%
<b>Total Remuneration - Executives</b>													
	<b>2011</b>	<b>2,374,865</b>	<b>988,577</b>	<b>239,694</b>	<b>3,603,136</b>	<b>225,954</b>	<b>33,248</b>	<b>257,539</b>	<b>-</b>	<b>(9,160)</b>	<b>4,110,717</b>		
	<b>2010</b>	<b>1,868,073</b>	<b>749,909</b>	<b>140,283</b>	<b>2,758,265</b>	<b>181,797</b>	<b>20,210</b>	<b>-</b>	<b>-</b>	<b>210,408</b>	<b>3,170,680</b>		

1 Remuneration in the form of share based payments includes negative amounts for performance rights forfeited during the year.

2 While KMP from 1 February 2011, bonuses have been disclosed for the full 12 month period given Mr Fidock is one of the five highest paid earners of the Group, as required to be disclosed under the *Corporations Act 2001*.

## 5.5 EMPLOYEE SHARE PLANS

### 5.5.1 EMPLOYEE SHARE LOAN PLAN

The employee share loan plan, established in 2005 was wound up in the 2011 financial year.

### 5.5.2 DEFERRED EMPLOYEE SHARE PLAN

The deferred employee share plan was suspended in 2009 as a result of the decision by the Federal Government to remove the ability of participants to defer tax. The plan remains suspended.

## 5.6 REWARD DESIGN STRATEGY

Macarthur Coal undertook a review of its reward design strategy in 2011 to review and improve the effectiveness and competitiveness of its remuneration and employee benefits arrangements, particularly in relation to fixed remuneration and incentives, both short and long-term.

The revised reward strategy which outlines the Company's philosophy on employee benefits, has four components each with a specific objective:

- **Pay for Performance**

To provide a clear line of sight to, and support for, Macarthur Coal's strategy, values and desired behaviours and to attract, retain, motivate and engage employees to deliver outstanding performance over the short and long-term.

- **Benefits**

To provide flexibility to employees by making available salary sacrificing options and to provide: superannuation arrangements, insurances and financial advice to assist employees in ensuring their financial affairs, and those of their immediate family, are appropriately structured and managed.

- **Work-Life**

To provide a range of facilities and services which enable employees, and where appropriate their family members, to achieve optimal health, flexibility and an appropriate balance between work and general lifestyle.

To formally recognise the service already provided by employees and to formally recognise individual contributions which exceed normal expectations.

- **Careers**

To create an environment that enables employees to achieve their professional and career development aspirations in alignment with the Company's broader business strategy.

The revised reward design strategy will be implemented in the 2012 financial year.

## 5.7 CONSEQUENCES OF PERFORMANCE ON SHAREHOLDERS' WEALTH

The various components of the way the Group remunerates Executives and the achievements against specific financial and non-financial performance measures over both the short and long-term are designed

to create long-term, sustained shareholder value. When setting targets and determining the quantum of remuneration increases, and the fixed and performance linked remuneration components, the Board has regard to a number of factors including the indices in the table below, in respect of the current and previous financial years.

Over the past four years the annualised return to a shareholder who purchased shares on 1 July 2007 (\$6.77/share), was paid the dividends by the Company and sold the shares on 30 June 2011 at \$10.95/share (the closing price on 30 June 2011) was 15.4%.

During the same period, average key management personnel (KMP) compensation has grown by 7.0% per annum.

## 5.8 EQUITY INSTRUMENTS

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. For performance rights granted during the year refer to Section 5.3.9.

## 6. ENVIRONMENTAL REGULATION

For a full report on our environmental performance and how we are addressing climate change, refer to the Sustainability section of the Annual Report from pages 46 to 47.

	2007	2008	2009	2010	2011
Net profit	\$66,544,000	\$72,684,000	\$168,558,000	\$125,064,000	\$241,390,000
Dividends paid	\$54,340,000	\$19,481,000	\$29,702,000	\$53,410,000	\$121,596,579
Change in share price	\$2.29	\$10.10	-\$10.27	\$5.52	-\$1.17
Return on invested capital	13.3%	10.0%	16.2%	10.7%	12.4%
Earnings per share (diluted)	35.5 cents	36.6 cents	79.3 cents	49.3 cents	82.7 cents
KMP Remuneration	\$5,625,926	\$4,518,846	\$4,546,954	\$6,339,589	\$7,366,200

# DIRECTORS' REPORT CONTINUED

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.

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. There were five non-compliances at our operations relating to water releases following severe flooding. Coppabella had three non-compliant releases, while Moorvale had two non-compliant releases. Based on the Department of Environment and Resource Management's

(DERM) assessment of the severity of the releases, no penalties were recorded.

Life of Mine-Water Management Plans are progressing and associated capital expenditure is budgeted for the 2012 financial year to reduce the risk of any further non-compliant water releases and to address the non-release conditions introduced by DERM in the 2010 financial year.

## 7. PRINCIPAL ACTIVITIES

The Company's principal activities are explained fully in the Operational Excellence and Sustainable Growth sections of the Annual Report from page 16 to 44. Macarthur Coal's principal activities during the course of the year were coal mining, project evaluation, project development, coal exploration and marketing of coal. Product coal is predominantly exported to Asia, Europe and Brazil. There were no other significant changes in the nature of Macarthur Coal's activities during the year.

## 8. BUSINESS STRATEGY

Macarthur Coal will continue to pursue its strategies of operational excellence and sustainable growth in order to meet its goal of doubling 2009 saleable production in five years, targeting 9.2Mtpa (attributable sales) by 2014. An overview of the Company's strategy is contained in the Annual Report from pages 4 to 5.

## 9. REVIEW OF OPERATIONS

The Operations and Growth sections of the Annual Report provide a detailed report on the operations of Coppabella and Moorvale mines on pages 20 to 23 and the Middlemount Mine Project on pages 34 to 35.

## 10. FINANCIAL PERFORMANCE

Refer to the Chief Financial Officer's Report on pages 12 to 14 of the Annual Report for detailed information on financial performance.

**Regular visitors to Moorvale Mine** – Swans are often seen on the mine's Environmental Dam.





## 10.1 DIVIDENDS

Macarthur Coal's Dividend Policy is to pay approximately 50% of net profit after tax as dividends.

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

DIVIDENDS	CENTS PER SHARE	TOTAL AMOUNT \$'000	FRANKED/ UNFRANKED	DATE OF PAYMENT
<b>Declared and paid during the year:</b>				
Final 2010 ordinary	17.0	49,722	Franked	18 October 2010
Interim 2011 ordinary	24.0	71,875	Franked	11 April 2011
<b>TOTAL DIVIDENDS PAID DURING FY2011</b>	<b>41.0</b>	<b>121,597</b>		
Franked dividends declared or paid during the year were fully franked at the rate of 30 per cent.				
<b>Declared after end of year:</b>				
After the balance sheet date the following dividends were proposed by the directors:				
Final 2011 ordinary	16.0	48,335	Franked	9 September 2011
The financial effect of the final 2011 dividend has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial reports. There are no income tax consequences for the 2011 financial year.				
<b>Dividends have been dealt with in the financial report as:</b>		<b>Note</b>	<b>\$'000</b>	
Dividends		27	121,597	
Noted as not recognised at the end of the reporting period		27	48,335	

## 11. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## 12. INSURANCE PROVIDED AND INDEMNIFICATION OF OFFICERS

The Company has paid a premium for a contract insuring all Directors and Executives 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.

# DIRECTORS' REPORT CONTINUED

## 13. EVENTS SUBSEQUENT TO BALANCE DATE

On 11 July 2011, Macarthur Coal Limited announced that it had received a non-binding indicative and conditional proposal from Peabody Energy Corporation and ArcelorMittal S.A. (together "PEAMCoal") under which, subject to due diligence and other matters, PEAMCoal would make a takeover bid for all of the issued shares in Macarthur.

On 1 August 2011, the Board of Macarthur advised that on completion of due diligence, PEAMCoal intended to make a conditional offer to acquire a controlling interest in Macarthur for a cash consideration of \$15.50 per share.

On 4 August 2011, Macarthur received a bidder's statement from PEAMCoal, containing the terms of a conditional proposal to bid for all of the issued ordinary shares in Macarthur at a price of \$15.50 per share. In response to a request from Macarthur, PEAMCoal agreed to make certain changes to the bidder's statement and issued a replacement bidder's statement on 15 August 2011.

Macarthur did not consider it in shareholders' interests to seek to delay the dispatch of the replacement bidder's statement and PEAMCoal dispatched its replacement bidder's statement to Macarthur shareholders on 18 August 2011. The PEAMCoal Offer opened on 18 August 2011 and remains open until at least 20 September 2011, although it may be extended.

Macarthur expects to dispatch its target's statement to shareholders by late August or early September 2011.

In light of the above developments, the Directors of Macarthur Coal Limited have resolved that the Dividend Reinvestment Plan will not operate for the 2011 final dividend.

## 14. 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*.

## 15. 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 APES 110 Code of Ethics for Professional Accountants 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 KPMG for audit and non-audit services provided during the year are set out in Note 10 to the financial statements included on page 126.

## 16. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* forms part of the Directors' report for the financial year ended 30 June 2011 and appears on page 103.

## 17. ROUNDING OFF

The Company is of a kind referred to in Australian Securities and Investments Commission (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 DELACY

Chairman  
23 August 2011

**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 2011, there have been:

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

A handwritten signature in black ink that reads 'Robert S. Jones'.

**KPMG**

A handwritten signature in black ink that reads 'Robert S. Jones'.

**ROBERT S JONES**

Partner

Brisbane  
23 August 2011

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.



# FINANCIAL REPORT

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	NOTE	2011 \$'000	2010 \$'000
Revenue from coal sales		687,325	670,502
Cost of coal sold		(418,868)	(397,800)
<b>GROSS PROFIT</b>		<b>268,457</b>	<b>272,702</b>
Other income	7	131,821	10,862
Distribution expenses		(45,256)	(56,550)
Administration expenses		(24,743)	(19,345)
Other expenses	8	(15,586)	(25,894)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>314,693</b>	<b>181,775</b>
Finance income	11	28,433	14,174
Finance expenses	11	(11,653)	(12,169)
<b>NET FINANCIAL INCOME</b>		<b>16,780</b>	<b>2,005</b>
Share of loss of equity accounted investees, net of income tax	30	(5,671)	(10,934)
<b>PROFIT BEFORE INCOME TAX</b>		<b>325,802</b>	<b>172,846</b>
Income tax expense	12(a)	(84,412)	(47,782)
<b>PROFIT FOR THE YEAR</b>		<b>241,390</b>	<b>125,064</b>
<b>OTHER COMPREHENSIVE INCOME*</b>			
Effective portion of changes in fair value of cash flow hedges		15,045	12,469
Net change in fair value of cash flow hedges reclassified to profit and loss		(9,912)	(26,807)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX</b>		<b>5,133</b>	<b>(14,338)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>246,523</b>	<b>110,726</b>
<b>EARNINGS PER SHARE:</b>			
Basic earnings per share	14	\$0.83	\$0.49
Diluted earnings per share	14	\$0.83	\$0.49

\* Amounts recognised in comprehensive income are disclosed net of income tax.

The consolidated statement of comprehensive income should be read in conjunction with the notes to the financial statements set out on pages 110 to 162.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	NOTE	2011 \$'000	2010 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	15	415,161	348,216
Trade and other receivables	16	736,576	209,105
Inventories	17	38,926	49,762
Other financial assets	18	41,058	26,211
Overburden in advance	19	182,256	146,548
<b>TOTAL CURRENT ASSETS</b>		<b>1,413,977</b>	<b>779,842</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	16	106,168	75,309
Investments in equity accounted investees	30	241,161	338,554
Inventories	17	4,368	-
Other financial assets	18	7,035	4,263
Property, plant and equipment	20	240,604	250,715
Exploration and evaluation assets	21	100,309	98,483
Overburden in advance	19	21,824	19,905
<b>TOTAL NON-CURRENT ASSETS</b>		<b>721,469</b>	<b>787,229</b>
<b>TOTAL ASSETS</b>		<b>2,135,446</b>	<b>1,567,071</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	22	101,758	125,677
Loans and borrowings	23	20,769	15,822
Current tax payable	12	20,929	55,025
Employee benefits	24	6,878	5,179
Provisions	25	2,930	3,459
Other financial liabilities	26	2,265	6,639
<b>TOTAL CURRENT LIABILITIES</b>		<b>155,529</b>	<b>211,801</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	23	64,543	83,600
Deferred tax liabilities	13	90,600	76,604
Employee benefits	24	119	87
Provisions	25	30,584	30,602
Other financial liabilities	26	587	35,782
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>186,433</b>	<b>226,675</b>
<b>TOTAL LIABILITIES</b>		<b>341,962</b>	<b>438,476</b>
<b>NET ASSETS</b>		<b>1,793,484</b>	<b>1,128,595</b>
<b>EQUITY</b>			
Share capital		1,253,923	713,420
Reserves		1,841	(2,752)
Retained earnings		537,720	417,927
<b>TOTAL EQUITY</b>		<b>1,793,484</b>	<b>1,128,595</b>

The consolidated statement of financial position should be read in conjunction with the notes to the financial statements set out on pages 110 to 162.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2011

### ATTRIBUTABLE TO OWNERS OF THE COMPANY

	NOTE	SHARE CAPITAL \$'000	HEDGING RESERVE \$'000	SHARE-BASED PAYMENTS RESERVE \$'000	RESERVE FOR OWN SHARES \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2009		651,423	11,187	182	-	346,273	1,009,065
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>							
Profit or loss		-	-	-	-	125,064	125,064
<b>Other comprehensive income</b>							
Effective portion of changes in fair value of cash flow hedges*		-	12,469	-	-	-	12,469
Net change in fair value of cash flow hedges reclassified to profit or loss*		-	(26,807)	-	-	-	(26,807)
Total other comprehensive income		-	(14,338)	-	-	-	(14,338)
Total comprehensive income for the year		-	(14,338)	-	-	125,064	110,726

### TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY\*

#### Contributions by and distributions to owners

Dividends to equity holders	27	-	-	-	-	(53,410)	(53,410)
Issue of ordinary shares	27	61,997	-	-	-	-	61,997
Share-based payment transactions	24	-	-	217	-	-	217
Total contributions by and distributions to owners		61,997	-	217	-	(53,410)	8,804
Balance at 30 June 2010		713,420	(3,151)	399	-	417,927	1,128,595

Balance at 1 July 2010		713,420	(3,151)	399	-	417,927	1,128,595
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>							
Profit or loss		-	-	-	-	241,390	241,390
<b>Other comprehensive income</b>							
Effective portion of changes in fair value of cash flow hedges*		-	15,045	-	-	-	15,045
Net change in fair value of cash flow hedges reclassified to profit or loss*		-	(9,912)	-	-	-	(9,912)
Total other comprehensive income		-	5,133	-	-	-	5,133
Total comprehensive income for the year		-	5,133	-	-	241,390	246,523

### TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY\*

#### Contributions by and distributions to owners

Dividends to equity holders	27	-	-	-	-	(121,597)	(121,597)
Issue of ordinary shares	27	540,503	-	-	-	-	540,503
Own shares acquired		-	-	-	(580)	-	(580)
Share-based payment transactions	24	-	-	40	-	-	40
Total contributions by and distributions to owners		540,503	-	40	(580)	(121,597)	418,366
Balance at 30 June 2011		1,253,923	1,982	439	(580)	537,720	1,793,484

\* Amounts recognised are disclosed net of income tax.

The consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements set out on pages 110 to 162.



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	NOTE	2011 \$'000	2010 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		727,351	650,541
Cash paid to suppliers and employees		(531,219)	(429,227)
Cash generated from operating activities		196,132	221,314
Interest received		25,556	13,805
Income tax paid		(109,290)	(65,000)
Income tax refund		5,371	7,009
<b>NET CASH FROM OPERATING ACTIVITIES</b>	36	117,769	177,128
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		142	32
Acquisition of property, plant and equipment		(11,652)	(9,824)
Deposit on land purchase		(7,500)	-
Proceeds from partial disposal of equity accounted investee	7	97,600	7,000
Proceeds from partial disposal of mining project		14,976	-
Exploration and evaluation expenditure		(12,517)	(10,310)
Contributions from joint ventures		507,649	446,399
Contributions to joint ventures		(519,635)	(448,614)
Loans to other entities		(370,000)	-
Repayment of loans to related parties		1,219,616	771,700
Advances to related parties		(1,359,761)	(835,411)
Deposits made with financial institutions in relation to guarantees provided		(2,772)	(1,509)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(443,854)	(80,537)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from share issues		487,402	61,997
Payment of interest and financial expenses		(2,101)	(743)
Repayment of other financial liabilities		(3,700)	(3,621)
Payments for finance lease liabilities		(20,075)	(20,174)
Dividends paid	27	(68,496)	(53,410)
<b>NET CASH FROM / (USED IN) FINANCING ACTIVITIES</b>		393,030	(15,951)
Net increase in cash and cash equivalents		66,945	80,640
Cash and cash equivalents at 1 July		348,216	267,576
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	15	415,161	348,216

The consolidated statement of cash flows should be read in conjunction with the notes to the financial statements set out on pages 110 to 162.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2011

## 1. REPORTING ENTITY

Macarthur Coal Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is 100 Melbourne Street, South Brisbane, QLD, 4101. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities. The Group primarily is involved in exploration, project evaluation, project development and coal mining activities in Queensland’s Bowen Basin.

## 2. BASIS OF PREPARATION

### (A) STATEMENT OF COMPLIANCE

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 23 August 2011.

### (B) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except that derivative financial instruments 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 all of its subsidiaries.

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 the consolidated financial statements in conformity with AASBs 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. 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 estimates are revised and in any future periods affected.

Management discuss 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.

## Estimates and assumptions

### Coal Reserves

Economically recoverable coal reserves at the Coppabella mine of 43,247,000 (2010: 46,179,000) tonnes and Moorvale mine of 21,257,000 (2010: 24,189,000) tonnes, relate to the estimated quantity of coal in an area of interest that can be expected to be profitably extracted, processed and sold. The Group determines and reports coal reserves under the Australasian Code of Reporting of Mineral Resources and Ore Reserves (the JORC Code). This includes estimates and assumptions in relation to geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, exchange rates and expected coal demand and prices. Changes in coal reserves impact on the assessment of recoverability of property, plant and equipment and investments in equity accounted investees, including the carrying value of assets depreciated on a units of production basis, and rehabilitation and dismantling provisions.

### Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group’s accounting policy (refer note 3(f)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. The Group applies the principles of AASB 6 and recognises exploration and evaluation assets when the rights of tenure of the area of interest are current, and the exploration and evaluation expenditures incurred are expected to be recouped through successful development and exploitation of the area. If, after having capitalised the expenditure under the Group’s accounting policy in Note 3(f), a judgement is made that recovery of the carrying amount is unlikely, an impairment loss is recorded in profit or loss in accordance with the Group’s accounting policy in Note 3(k). The carrying amounts of exploration and evaluation assets are set out in Note 21.

### Rehabilitation and dismantling provisions

Certain estimates and assumptions are required to be made in determining the cost of rehabilitation and restoration of the areas disturbed during mining activities and the cost of dismantling of mining infrastructure in accordance with the Group’s accounting policy (refer Note 3(m)). The amount the Group is expected to incur to settle its future obligations includes estimates regarding: the appropriate rate at which to discount the liability, the expected timing of the cash flows and the expected life of mine (which is based on coal reserves, refer above), the application of relevant environmental legislation, and the future expected costs of rehabilitation, restoration and dismantling. At 30 June 2011, the Group has used a discount rate of 6.15% (2010: 5.56%).

Changes in the estimates and assumptions used could have a material impact on the carrying value of the rehabilitation and dismantling provision and related asset. The provision is reviewed at each reporting date and updated based on the best available estimates and assumptions at that time. The carrying amount of the rehabilitation and dismantling provision and related assets is set out in Note 25.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 2. BASIS OF PREPARATION (CONTINUED)

#### (D) USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

##### *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 future coal prices, future cash flows, discount rate and estimates of coal reserves. Estimates of coal reserves in themselves are dependent on various assumptions (refer page 110). Changes in these assumptions could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation. Further details of impairment testing assumptions relating to investments in equity accounted investees are included in Note 30. The carrying amounts of applicable non-current assets are set out in Notes 20 and 30.

##### *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 32.

##### *Financial Instruments including 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*. The carrying amounts of financial instruments are set out in Notes 18 and 26.

The recognition and measurement of derivative liabilities disclosed in Note 26, 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 coal reserves, coal pricing and production costs are considered. Estimates of coal reserves in themselves are dependent on various assumptions (refer page 110). Changes in these estimates could materially impact on coal reserves, and could therefore affect estimates of future cash flows used in the assessment of future project fair value.

##### *Minerals Resource Rent Tax*

On 10 June 2011, the Australian Federal Government released the Exposure Draft (ED) legislation for the proposed Minerals Resource Rent Tax (MRRT). This ED is not final and does not include the legislative provisions in relation to a number of complex areas. The second and final ED for public consultation is expected to be released during the first half of the 2012 financial year.

If the MRRT is introduced in its proposed form from 1 July 2012, it has the potential to impact the assumptions used to determine the future cash flows generated from the continuing use of the Group's assets for the purpose of the calculations used in impairment testing. The assets most likely to be impacted include exploration and evaluation assets, property, plant and equipment and investments in equity accounted investees, the carrying amounts of which are set out in Notes 20, 21 and 30. The Group has not yet incorporated the impact of the MRRT into its assumptions at 30 June 2011 as the legislation has not been fully developed nor substantively enacted.

##### *Australian Government's proposed carbon pricing mechanism*

The Australian Government announced the "Securing a Clean Energy Future – the Australian Government's Climate Change Plan" on 10 July 2011. Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation has yet to be drafted, and must be voted on by both houses of Parliament.

The introduction of a carbon pricing mechanism has the potential to impact the assumptions used for the purpose of the calculation used in asset impairment testing. The Group has not incorporated the potential impact of any carbon pricing mechanism in its impairment testing at 30 June 2011.

### 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.

#### (A) BASIS OF CONSOLIDATION

##### *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

##### *Acquisitions on or after 1 July 2009*

The Group has adopted the revised AASB 3 *Business Combinations (2008)* and the amended AASB 127 *Consolidated and Separate Financial Statements (2008)* for acquisitions of non-controlling interests occurring in the financial year commencing 1 July 2009. The change in accounting policy was applied prospectively.

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognisable amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit and loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (A) BASIS OF CONSOLIDATION (CONTINUED)

##### Business combinations (continued)

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

##### Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

##### Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### Investments in 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 percent 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.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, 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 zero, 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.

##### Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of income that it earns from the joint operation.

##### Transactions eliminated on consolidation

Intra-group balances and transactions, 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.

#### (B) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates 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 exchange rate 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 year.

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 at the dates that fair values were determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

#### (C) FINANCIAL INSTRUMENTS

##### Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: Loans and receivables, cash and cash equivalents, and cash and deposits – not at call.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (C) FINANCIAL INSTRUMENTS (CONTINUED)

##### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Cash and deposits - not at call comprise balances pledged as collateral for arrangements relating to Wiggins Island feasibility study costs and balances relating to the Group's share of cash in its joint ventures' bank accounts.

##### *Non-derivative financial liabilities*

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, trade and other payables, and amounts payable for future user charges.

##### *Derivative financial instruments, including hedge accounting*

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable

to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivative financial instruments existed in relation to contractual obligations and the option for a sale of shares in a jointly controlled entity to a third party in line with pre-determined triggering events in the future. For further details refer to Note 26.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

##### *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

##### *Other non-trading derivatives*

When a derivative financial instrument is not held for trading, and is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

#### (D) SHARE CAPITAL

##### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

##### *Dividends*

Dividends are recognised as a liability in the period in which they are declared.

##### *Purchase of share capital*

When share capital recognised as equity is purchased by the employee share plan trust, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. When shares are sold subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (E) PROPERTY, PLANT AND EQUIPMENT

##### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (refer below) and accumulated impairment losses (refer Note 3(k)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets and acquired 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, capitalising borrowing costs (refer Note 3(p)) and:

- (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.

Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical 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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expenses in profit or loss.

##### Subsequent costs

The cost of replacing a component 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 component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment taking into account estimated residual values, with the exception of mining property and development assets which are depreciated on a units of production basis over the life of the economically recoverable reserves (refer Note 2(d)).

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. Freehold land is not depreciated.

Assets are depreciated from the date they are available for use. The depreciation rates or useful lives used for each class of asset are as follows:

	2011	2010
<b>Property, plant and equipment</b>		
Mining property and development	UOP <sup>(1)</sup>	UOP <sup>(1)</sup>
Buildings and infrastructure	6.6% - 44%	6.6% - 44%
Plant and equipment	5% - 67%	5% - 40%
Leased assets	10% - 20%	10% - 20%

(1) Depreciated on a units of production (UOP) basis over reserves.

Depreciation rates and methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. 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.

##### 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. Capitalisation of development expenditure ceases once the area of interest as a whole is capable of being operated at commercial levels of production in the manner intended by management, at which point the asset is depreciated in accordance with the rates above. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (refer Note 3(k)), and is included in mining property and development assets within property, plant and equipment (see above).

#### (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 profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (F) EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)

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 tested for impairment when any of the following facts and circumstances exist:

- (i) the term of exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and it is not expected to be renewed;
- (ii) substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;
- (iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- (iv) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash generating unit (CGU) which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy 3(k).

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 capitalised to inventory 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 expensed.

#### (H) 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 weighted average 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.

#### (I) 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 operating leases and are not recognised on the Group's statement of financial position.

#### (J) GOODWILL

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a).

##### *Acquisitions of non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

##### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

#### (K) IMPAIRMENT

##### **Financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment. Any such impairment is recorded in profit and loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (K) IMPAIRMENT (CONTINUED)

##### Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories (refer Note 3(h)), overburden in advance (refer Note 3(g)) and deferred tax assets (refer Note 3(q)), 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 reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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 post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually 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 cash generating unit. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Goodwill that forms part of the carrying amount of an investment in an associate or jointly controlled entity is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate or jointly controlled entity is tested for impairment as a single asset when there is objective evidence that the investment in an associate or jointly controlled entity may be impaired.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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.

#### (L) 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 obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

##### 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 reporting 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 committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage redundancy. Termination benefits for redundancies are recognised as an expense if the Group has made an offer encouraging redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

##### Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and vesting 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 liability 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (L) EMPLOYEE BENEFITS (CONTINUED)

##### Share-based payment transactions

The grant-date fair value of share-based payment awards granted under the Employee Share Loan Plan and the Long Term Incentive Plan is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value (refer Note 4) of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Vested shares are purchased on market after vesting date, and held in trust. Equity instruments held in connection with the equity compensation plan are presented as treasury shares and show in equity in the balance sheet as treasury reserve. The treasury reserve will hold the value of the shares on-trust until such time as the shares are withdrawn by the employee. On withdrawal, the treasury reserve is reversed against the share-based payment reserve.

Non-Executive Directors, excluding the Chairman, are entitled to 10,000 Company securities each year as part of their Director's fees, pro-rated based on length of service. The Chairman is entitled to 15,000 Company securities each year. 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.

##### Long Term Incentive Plan

Under the Group's Long Term Incentive Plan (LTIP), eligible employees are invited to apply for performance rights, which will be converted to fully paid ordinary shares if the Company performance criteria specified by the Nomination and Remuneration Committee are satisfied within a specified performance period.

The Group has established an employee share plan trust (the Trust) to facilitate the operation of the LTIP, including acquisition of the shares on-market for the purpose of the LTIP.

The performance criteria for the purposes of the LTIP consist of Earnings per Share (EPS), Total Shareholder Return (TSR), and Return on Invested Capital (ROIC). If the performance criteria are satisfied over the performance period, the performance rights will automatically vest and the Company will allocate shares to participants. At the election of the participants, the shares are held in trust, sold or transferred to the participant.

CPU Share Plans Pty Limited, the trustee of the Trust, holds the shares in trust on the participants' behalf until an employee notifies the Trustee that they wish to withdraw their shares.

Allocated shares can be held in Trust on the participants' behalf until the earlier of the cessation of employment, 10 years from the date the performance rights were granted, or the participant withdraws the shares from the Trust by completing a 'Notice of Withdrawal'.

While the shares are held in Trust, they will be subject to risk of forfeiture if a participant's employment is terminated because of fraud, theft or other gross misconduct.

#### (M) 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 the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

##### 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 complying with legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

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 profit or loss 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 profit or loss. 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 profit or loss in the period in which it occurs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (M) PROVISIONS (CONTINUED)

##### Rehabilitation and dismantling (continued)

##### *Non-infrastructure areas*

Rehabilitation obligations relating to non-infrastructure areas are discounted to their present value based on expected future cash flows. 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 profit or loss as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

##### 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. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

#### (N) 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, allowances and hedging gains/losses. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that 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, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

#### (O) LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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.

##### *Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset.

An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

#### (P) FINANCE INCOME AND FINANCE COSTS

Finance income and costs comprise interest expense on borrowings using the effective interest rate method, interest income on funds invested, amortisation of ancillary costs incurred in connection with arrangement of borrowings and unwinding of the discount on provisions.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in the profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

#### (Q) INCOME TAX

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of 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:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (Q) INCOME TAX (CONTINUED)

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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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 tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Macarthur Coal Limited.

#### (R) SEGMENT REPORTING

##### Determination and presentation of operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financial income and expenses, changes in fair value of other derivative liabilities, net gain/loss on sale of controlling interest in subsidiary and disposal of interest in equity accounted investee, depreciation and amortisation relating to corporate assets and other corporate expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

#### (S) 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 statement of financial position.

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

#### (T) 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 year. 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 share-based payment awards granted to employees.

#### (U) 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 2011, but have not been applied in preparing this financial report:

- IFRS 10 *Consolidated Financial Statements* introduces a new approach to determining which investees should be consolidated based on whether the investee is exposed to, or has rights, to variable returns from their involvement with the investee and has the ability to affect those returns through its power over the investee. The new requirements will be effective for the 30 June 2014 financial year. The Group has not yet determined the potential impact of the standard.
- IFRS 11 *Joint Arrangements* overhauls the accounting for joint ventures (now called joint arrangements). Joint arrangements are classified as either joint operations; where the parties have rights to and obligations for underlying assets and liabilities, and joint ventures; where the joint venturers have rights to the net assets of the arrangements. Joint Operations are required to perform line by line accounting of the underlying assets and liabilities. Joint Ventures will need to be equity accounted with the option of proportionate consolidation being removed. The new requirements will be effective for the 30 June 2014 financial year. The Group has not yet determined the potential impact of the standard.
- IFRS 12 *Disclosure of Interests in Other Entities* contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. The new requirements will be effective for the 30 June 2014 financial year. The Group has not yet determined the potential impact of the standard.
- IFRS 13 *Fair Value Measurement* defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The new requirements will be effective for the 30 June 2014 financial year. The Group has not yet determined the potential impact of the standard.
- AASB 9 *Financial Instruments incorporating AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential impact of the standard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (U) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on transfers of Financial Assets* introduces new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments, which will become mandatory for the Group's 30 June 2012 financial year, require retrospective application, however comparatives are not required in the first year of adoption. There is not expected to be a significant impact on the financial statements.
- AASB 124 *Related Party Disclosures* simplifies and clarifies the intended meaning of the definition of related party and provides partial exemption for the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 1054 *Australian Additional Disclosures* removes many of the additional disclosures previously required under standards to align the requirements of accounting for publicly accountable for-profit entities in Australia and New Zealand. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* incorporate a collection of improvements to the following accounting standards: AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13. The amendments, which become mandatory for the 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.

### 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 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. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciable replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

#### 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. This fair value is determined for disclosure purposes.

#### Finance lease liabilities

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 recognised at fair value based on their listed market price, if available. If a listed market price is unavailable, then the fair value is estimated 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 (based on government bonds).

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.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

#### Share-based payment transactions

##### Long term incentive plan

The fair value of shares granted under the Long Term Incentive Plan is measured using Binomial Tree (EPS and ROIC hurdles) and Monte-Carlo simulation (TSR hurdle) valuation methodologies, taking into account the terms and conditions upon which the performance rights were granted. Measurement inputs include share price at grant date, 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). The likelihoods of meeting service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### 5. FINANCIAL RISK MANAGEMENT

#### OVERVIEW

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### RISK MANAGEMENT FRAMEWORK

The Board of Directors (“Board”) has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Board has established the Audit and Risk Management Committee (“ARMC”), which is responsible for developing and monitoring the Group’s risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group’s risk management policies are established to identify and analyse the risks faced by the 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 Group’s activities. The Group, through its 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 Group ARMC also oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The ARMC 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 ARMC.

#### 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.

The credit risk on financial assets of the Group, which have been recognised in the statement of financial position, is the carrying amount, net of impairment.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position.

Credit risk on cash, deposits and derivative contracts is managed by ensuring that counterparties are recognised financial intermediaries with acceptable long term credit ratings of A- or above from Standard & Poor’s, and using several counterparties for transactions.

#### *Trade and other receivables*

The ARMC has established a credit policy under which each new customer is subject to the Group’s standard letter of credit terms and conditions unless otherwise authorised by the Board. Open terms are only extended to customers after a proper credit assessment has been performed and only then are specific payment and delivery terms and conditions offered. The Group’s credit assessment review includes external ratings, when available. Purchase limits are established for each customer on a case by case basis.

The Group minimises concentrations of credit risk by undertaking transactions with a number of customers in various countries. The majority of the Group’s customers are the world’s largest steel producers with well established reputations for the purchase of bulk commodities including coal. Credit risk on customers is also reduced by entering into letters of credit with customers or utilising trade finance, if available, as considered necessary.

The 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 18% (2010: 17%) of the Group’s revenue is attributable to sales transactions with a single customer.

The Group has 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.

In addition, the Group has recognised a receivable due from MCG Coal Holdings in relation to a loan facility agreement. The loan facility agreement provides for the loan to be converted to 90% of the share capital of MCG Coal Holdings with the intention to develop mining operations in relation to MDL 162. The Group are in the process of pursuing legal action against the MCG Group of companies in order to effect the conversion to shares as per the original terms of the loan facility agreement. The original loan balance is recognised as a current receivable. The Board, in consultation with legal advisors, regard the loan balance as fully recoverable through conversion to shares and therefore no impairment has been recognised. See note 16 for further details.

#### *Investments*

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a short term credit rating of at least A2 from Standard & Poor’s. Management actively monitors credit ratings and given that the Group has only invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

#### *Guarantees*

The Group has provided financial guarantees, details of which are provided in Note 32.

#### LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 a 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 coal prices will affect the Group’s profit 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 Treasury Committee manages and monitors market risk and oversees the compliance with the Group Treasury policy and provides key inputs into financing strategies.

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 ARMC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### MARKET RISK (CONTINUED)

##### Currency risk

The Group is exposed to currency risk predominantly on sales, and to some extent on purchases 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 is USD.

The Group's policy is to hedge up to 85% of the expected foreign currency revenues from fixed price USD contracts (generally for no longer than a 12 month period). The Group principally uses forward exchange contracts to hedge its currency risk, with a maturity of less than 12 months.

##### Interest rate risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's key interest rate risk management objective is to hedge where the movement in interest rates would have a significant profit and loss or cash flow effect on the Group. This would be achieved by entering into interest rate swaps. As at 30 June 2011 there were no interest rate swaps in place (2010: Nil).

##### Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of coal products it produces. The Group's policy is to manage these risks through the use of quarterly fixed price contracts for Pulverised Coal Injection (PCI) coal and coking coal which represent approximately 91% (2010: 93%) of total sales.

#### OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the ARMC. The ARMC's objective is to assist the Board to fulfil its responsibilities in relation to accounting, risk management and financial reporting practices.

The ARMC oversees and makes recommendations to the Board on:

- the adequacy and effectiveness of the accounting system and internal control environment
- the adequacy of the system for compliance with relevant laws, regulations, standards and codes
- the effectiveness of the risk management system (particularly with respect to the management and monitoring of material business risks)
- the independence, objectivity, scope and quality of any internal and external audit

- the frequency and significance of all transactions with related parties in addition to assessing their propriety
- the integrity and quality of the Group's internal and external financial reporting.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with management, with summaries submitted to the ARMC.

#### 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. Capital consists of share capital, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return of capital as well as the level of dividends to ordinary shareholders.

	2011 \$'000	2010 \$'000
Total liabilities	341,962	438,476
Less: Cash and cash equivalents	(415,161)	(348,216)
Net debt	(73,199)	90,260
Total equity	1,793,484	1,128,595
Less: amounts accumulated in equity relating to cash flow hedges	(1,982)	3,151
Adjusted equity	1,791,502	1,131,746
Net debt to adjusted equity ratio at 30 June	(0.04)	0.08

There were no changes in the Group's general approach to capital management during the year.

### 6. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. The reportable segments are managed separately due to their phase of mining activity and reflect the Group's internal reporting structure. The Group's CEO (chief operating decision maker) reviews internal management reports on a monthly basis.

The Group has the following reportable segments:

- *Production*: Includes operating mines at Coppabella and Moorvale for the commercial production of LV PCI, coking and thermal coal.
- *Development*: Relates to Middlemount Mine development project which will produce PCI and semi-hard coking coal, and the Codrilla Mine Project which will produce PCI coal.
- *Exploration and evaluation*: Includes a number of projects at varying stages of the exploration and evaluation phase.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, when applicable, is determined on an arm's length basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 6. OPERATING SEGMENTS (CONTINUED)

#### INFORMATION ABOUT REPORTABLE SEGMENTS

	PRODUCTION \$'000	DEVELOPMENT \$'000	EXPLORATION AND EVALUATION \$'000	TOTAL \$'000
<b>30 JUNE 2011</b>				
External sales revenue	687,325	-	-	687,325
Financial income	-	-	355	355
Financial expenses	(8,652)	-	(252)	(8,904)
Depreciation and amortisation	(29,842)	-	-	(29,842)
Reportable segment profit/(loss) before income tax	224,536	39,456	63,387	327,379
Reportable segment assets	717,997	200,148	215,346	1,133,491
<b>30 JUNE 2010</b>				
External sales revenue	670,502	-	-	670,502
Financial income	40	-	160	200
Financial expenses	(10,175)	-	-	(10,175)
Depreciation and amortisation	(30,961)	-	-	(30,961)
Reportable segment profit/(loss) before income tax	213,906	(10,810)	(3,513)	199,583
Reportable segment assets	737,239	286,370	138,388	1,161,997

#### RECONCILIATIONS OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS AND ASSETS

	2011 \$'000	2010 \$'000
<b>REVENUES</b>		
Total revenue for reportable segments	687,325	670,502
<b>PROFIT OR LOSS</b>		
Total profit before income tax for reportable segments	327,379	199,583
Unallocated amounts:		
Depreciation and amortisation	(724)	(318)
Change in fair value of other derivative liabilities	(2,121)	(14,010)
Financial income	28,078	13,974
Financial expenses	(2,749)	(1,994)
Facilitation fee	15,390	-
Net loss on partial disposal of equity accounted investee	-	(1,641)
Other corporate expenses	(39,451)	(22,748)
Consolidated profit before income tax	325,802	172,846

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 6. OPERATING SEGMENTS (CONTINUED)

	2011 \$'000	2010 \$'000
<b>ASSETS</b>		
Total assets for reportable segments	1,133,491	1,161,997
Unallocated amounts:		
Cash and cash equivalents	415,161	348,216
Property, plant and equipment	2,083	1,397
Other corporate assets	584,711	55,461
Consolidated total assets	2,135,446	1,567,071

### GEOGRAPHICAL SEGMENTS

The Group operates predominately in Australia. All non-current assets of the Group are based in Australia. There were \$1,932,484 domestic coal sales attributable to Australian customers in the year (2010: \$Nil).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

<b>GEOGRAPHICAL INFORMATION</b>	<b>2011 \$'000</b>	<b>2010 \$'000</b>
Japan	144,553	168,946
Korea	227,777	129,896
China	81,542	105,989
Brazil	90,197	78,371
UK	52,674	54,535
France	5,246	43,754
Italy	30,660	29,939
Spain	30,621	15,159
Other countries	24,055	43,913
Total	687,325	670,502

### MAJOR CUSTOMERS

Revenues from four customers (2010: three customers) of the Group's production segment each represent greater than 10% of total revenue.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 7. OTHER INCOME

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Management fee – related parties	467	253
Net gain on partial disposal of equity accounted investee <sup>(i)</sup>	44,148	-
Net gain on partial disposal of mining project <sup>(ii)</sup>	68,811	-
Facilitation fee <sup>(ii)</sup>	15,390	-
Net gain on sale of infrastructure capacity <sup>(iii)</sup>	2,986	10,600
Sundry – other parties	19	9
	131,821	10,862

- (i) On 24 December 2010, Macarthur Coal Limited and Gloucester Coal Ltd completed a transaction involving the early settlement of a share purchase agreement and exercise of a call option providing Gloucester Coal Ltd with an additional 22.48% interest in Middlemount Coal Pty Ltd, an equity accounted investee. The settlement for the transfer of shares was previously subject to the achievement of certain project milestones. Consideration payable by Gloucester Coal Ltd was \$97.6 million, a discount to the nominal \$108.0 million exercise price, recognising the transfers had occurred significantly prior to the end of the option period and the specified project milestones.

Consideration of \$52.6 million was received by Macarthur Coal Limited on completion of the transaction with the remaining \$45.0 million received on 30 June 2011.

The net gain recognised in relation to the partial disposal of the interest in Middlemount Coal Pty Ltd after applicable income tax expense is \$44.0 million which is inclusive of the reversal of the derivative liability referred to in note 8.

Following the share transfer, Macarthur Coal Limited holds a 50.0003% interest in Middlemount Coal Pty Ltd at 30 June 2011.

- (ii) On 30 June 2011, BB Interests Pty Ltd being a 100% subsidiary of Macarthur Coal Limited completed the sale of its 85% interest in the Codrilla project to participants of the Coppabella Moorvale Joint Venture (CMJV). The participants of the Bowen Basin Joint Venture (MCC 85% and CITIC 15%) agreed to sell down their respective interest in the Codrilla project to the CMJV so that following completion of the sale, ownership of the Codrilla project reflects the existing ownership of the Coppabella and Moorvale mines, with Macarthur Coal retaining a 73.3% ownership of the Codrilla project through its participation in the CMJV. The effective disposal of 13.76% of its interest in the Codrilla project resulted in a gain on sale being recognised to the Group of \$68.8 million and facilitation fee income of \$15.4 million.

Consideration of \$15.0 million was received by Macarthur Coal Limited on completion of the transaction representing 20% of the agreed price. Two remaining instalments are due on the completion of certain milestones with 40% due on granting of the mining lease (\$30.0 million) and the final 40% due on first raiing (\$30.0 million). Deferred considerations have been discounted to fair value using an appropriate discount rate which most closely matches the expected timing of milestone satisfaction.

- (iii) During the year ended 30 June 2011, the Group earned a net gain of \$2,986,000 (2010:\$10,600,000) on the sale of excess rail capacity.

### 8. OTHER EXPENSES

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Exploration and evaluation expensed as incurred	-	17
Depreciation	402	285
Net loss on disposal of non-current assets	152	42
Net foreign exchange losses	13,301	2,975
Change in fair value of other derivative liabilities <sup>(i)</sup>	2,121	14,010
Transaction costs <sup>(ii)</sup>	(390)	6,924
Net loss on partial disposal of equity accounted investee <sup>(iii)</sup>	-	1,641
	15,586	25,894

- (i) During the year ended 30 June 2011, the Group revalued derivative contracts arising from the acquisition of Custom Mining Limited Group, resulting in a change in the fair value (loss) of \$2,121,000 (2010: loss of \$14,010,000) of the derivative contracts bringing the derivative liability position to \$35,050,000 (2010: \$32,929,000). Upon early exercise of the share sale agreement and call option (refer note 7), the derivative liability was extinguished resulting in the recognition of \$35,050,000 to the statement of comprehensive income which is included in the net gain on partial disposal of an equity accounted investment.

- (ii) During the year ended 30 June 2011, the Group incurred transaction costs for potential mergers and acquisitions of \$2,110,000 (2010: \$6,924,000) offset by a \$2,500,000 forgiveness of a prior year liability in the current financial year.

- (iii) In December 2010, the Group disposed of 22.48% (2010: 2.18%) of its equity accounted investment in Middlemount Coal Pty Ltd. This resulted in a net gain on disposal of \$44,148,000 (2010: loss \$1,641,000). Refer note 7 & 30 for further detail.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 9. PERSONNEL EXPENSES

	NOTE	CONSOLIDATED	
		2011 \$'000	2010 \$'000
Wages and salaries		9,700	7,985
Other associated personnel expenses		3,770	1,693
Contributions to defined contribution superannuation funds		494	427
Increase in liability for annual leave		1,282	955
Increase in liability for long-service leave		93	157
Increase / (decrease) in liability for sick leave		356	(68)
Equity-settled share-based payments transactions	24	56	368
Termination benefits		859	267
		16,610	11,784

### 10. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2011 \$	2010 \$
<b>AUDIT SERVICES</b>		
Auditors of the Group – KPMG		
• Audit and review of financial reports		
- Current year	378,000	397,000
- Prior year	-	42,955
• Audit of joint venture operations <sup>(A)</sup>		
- Current year	219,515	214,036
- Prior year	16,078	38,246
• Other regulatory audit services	3,500	3,000
	617,093	695,237
<b>OTHER SERVICES</b>		
Auditors of the Group – KPMG		
• Forensic and other advisory services related to litigation	541,132	64,854
• Taxation services	24,627	122,890
• Other advisory services	-	5,835
• Joint venture operations – Other services <sup>(A) (B)</sup>	1,711	3,660
	567,470	197,239

(A) Represents the Group's share of remuneration paid for audit and other services incurred by joint ventures.

(B) Represents tax advice and other assurance services.

It is the Group's policy to engage KPMG to provide services additional to their statutory audit duties where KPMG's expertise and experience with the Group are important and it is logical and efficient for them to provide those services. The provision of non-audit services during the year by KPMG is compatible with, and did not compromise the auditor independence requirements of the *Corporations Act 2001*.

All non-audit services were subject to Corporate Governance procedures adopted by the Group, that is, non-audit services provided by KPMG were limited, in accordance with the ARMC Charter, to those which could not be perceived to be materially in conflict with the role of the auditor.

Non-audit services provided by KPMG were undertaken in a manner not to undermine the general principles relating to auditor independence as set out in The Accounting Ethical Standards Board Code of Ethics for Professional Accountants (APES 110) as services did not involve:

- Reviewing or auditing the auditor's own work
- Acting in a management or decision making capacity for the Group or having a financial interest in the Group
- Acting as an advocate for the Group
- Jointly sharing in risks or rewards.

The non-audit services work performed by KPMG has been primarily limited to forensic and other advisory services. The services of other reputable accounting firms were retained to reduce the requirement for KPMG to provide non-audit related services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 11. FINANCIAL INCOME AND EXPENSES

RECOGNISED IN PROFIT AND LOSS	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Interest income on cash and short-term deposits	24,241	14,174
Interest on loans to related parties	2,956	-
Unwind of discount on deferred income	1,236	-
Financial income	28,433	14,174
Financing costs	(2,539)	(377)
Interest expense on financial liabilities measured at amortised cost	(6,685)	(7,695)
Unwind of discount on liabilities and provisions	(2,429)	(4,097)
Financial expense	(11,653)	(12,169)
Net financial income	<b>16,780</b>	<b>2,005</b>

### 12. INCOME TAX EXPENSE

#### (A) INCOME TAX RECOGNISED IN PROFIT OR LOSS

CURRENT TAX EXPENSE	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Current year	71,292	59,283
Adjustments for prior years	(1,485)	(5,411)
	69,807	53,872
DEFERRED TAX EXPENSE		
Origination and reversal of temporary differences	14,605	(6,090)
	14,605	(6,090)
Total income tax expense from continuing operations	84,412	47,782

#### (B) RECONCILIATION OF EFFECTIVE TAX RATE

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Profit for the year	241,390	125,064
Total income tax expense	84,412	47,782
Profit excluding income tax	325,802	172,846
Income tax using the domestic corporation tax rate of 30% (2010: 30%)	97,741	51,854
Increase in income tax expense due to:		
• Non-deductible expenses	2,775	3,248
• Fair value movement in derivative	-	4,203
Decrease in income tax expense due to:		
• Utilisation of capital losses	(2,367)	-
• Fair value movement in derivative	(9,879)	-
• Tax exempt income and other items	(1,798)	(4,123)
	86,472	55,182
Over provided in prior years	(2,060)	(7,400)
	84,412	47,782

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 12. INCOME TAX EXPENSE (CONTINUED)

#### (C) INCOME TAX RECOGNISED DIRECTLY IN EQUITY

	2011 \$'000			2010 \$'000		
	BEFORE TAX	TAX (EXPENSE) BENEFIT	NET OF TAX	BEFORE TAX	TAX (EXPENSE) BENEFIT	NET OF TAX
Equity raising costs	9,365	(2,809)	6,556	(393)	118	(275)

#### (D) INCOME TAX RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME

Cash flow hedges	(7,333)	2,200	(5,133)	(20,483)	6,145	(14,338)
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#### CURRENT TAX ASSETS AND LIABILITIES

The current tax liability for the Group of \$20,929,000 (2010: \$55,025,000) represents the amount of income taxes payable in respect of current and prior financial years.

### 13. TAX ASSETS AND LIABILITIES

#### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Property, plant and equipment	-	-	2,491	2,821	2,491	2,821
Employee benefits	(2,098)	(1,579)	-	-	(2,098)	(1,579)
Inventories	-	-	138	208	138	208
Loans and borrowings	(1,659)	(1,801)	-	-	(1,659)	(1,801)
Provisions	(10,234)	(10,218)	-	-	(10,234)	(10,218)
Amounts payable for future user charges	(856)	(1,497)	-	-	(856)	(1,497)
Overburden in advance	-	-	61,224	49,936	61,224	49,936
Mining property and development	-	-	11,099	15,420	11,099	15,420
Exploration and evaluation	-	-	27,114	21,229	27,114	21,229
Foreign currency derivative contracts	-	(1,350)	832	-	832	(1,350)
Other items	(611)	(1,552)	-	-	(611)	(1,552)
Investments in equity accounted investees	-	-	6,273	6,273	6,273	6,273
Equity raising costs	(3,113)	(1,286)	-	-	(3,113)	(1,286)
Tax (assets)/liabilities	(18,571)	(19,283)	109,171	95,887	90,600	76,604
Set off of tax	18,571	19,283	(18,571)	(19,283)	-	-
Net tax (assets)/liabilities	-	-	90,600	76,604	90,600	76,604

#### UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items:

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Investments in equity accounted investees	6,350	18,144
Other financial assets	559	-
	6,909	18,144

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 can utilise these benefits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 13. TAX ASSETS AND LIABILITIES (CONTINUED)

#### MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

	BALANCE 1 JULY 2010 \$'000	RECOGNISED IN PROFIT OR LOSS \$'000	RECOGNISED DIRECTLY IN EQUITY \$'000	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$'000	BALANCE 30 JUNE 2011 \$'000
Property, plant and equipment	2,821	(330)	-	-	2,491
Inventories	208	(70)	-	-	138
Loans and borrowings	(1,801)	142	-	-	(1,659)
Employee benefits	(1,579)	(519)	-	-	(2,098)
Provisions	(10,218)	(16)	-	-	(10,234)
Amounts payable for future user charges	(1,497)	641	-	-	(856)
Overburden in advance	49,936	11,288	-	-	61,224
Mining property and development	15,420	(4,321)	-	-	11,099
Exploration and evaluation	21,229	5,885	-	-	27,114
Other items	(1,552)	941	-	-	(611)
Foreign currency derivative contracts	(1,350)	(18)	-	2,200	832
Investments in equity accounted investees	6,273	-	-	-	6,273
Equity raising costs	(1,286)	982	(2,809)	-	(3,113)
	76,604	14,605	(2,809)	2,200	90,600

	BALANCE 1 JULY 2009 \$'000	RECOGNISED IN PROFIT OR LOSS \$'000	RECOGNISED DIRECTLY IN EQUITY \$'000	RECOGNISED IN OTHER COMPREHENSIVE INCOME \$'000	BALANCE 30 JUNE 2010 \$'000
Property, plant and equipment	2,376	445	-	-	2,821
Inventories	258	(50)	-	-	208
Loans and borrowings	(1,979)	178	-	-	(1,801)
Employee benefits	(1,266)	(313)	-	-	(1,579)
Provisions	(10,744)	526	-	-	(10,218)
Amounts payable for future user charges	(2,102)	605	-	-	(1,497)
Overburden in advance	50,985	(1,049)	-	-	49,936
Mining property and development	15,031	389	-	-	15,420
Exploration and evaluation	20,156	1,073	-	-	21,229
Other items	7,144	(8,696)	-	-	(1,552)
Foreign currency derivative contracts	4,706	89	-	(6,145)	(1,350)
Investments in equity accounted investees	5,980	293	-	-	6,273
Equity raising costs	(1,588)	420	(118)	-	(1,286)
	88,957	(6,090)	(118)	(6,145)	76,604

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 14. EARNINGS PER SHARE

#### BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of \$241,390,000 (2010: \$125,064,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2011 of 291,686,234 (2010: 253,680,737), calculated as follows:

#### PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Profit attributable to ordinary shareholders	241,390	125,064

#### WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

	CONSOLIDATED	
	2011	2010
Issued ordinary shares at 1 July	254,333,109	243,980,249
Effect of shares issued in July 2009	-	9,700,488
Effect of institutional placement August 2010	31,774,218	-
Effect of share purchase plan October 2010	3,552,735	-
Effect of dividend re-investment plan October 2010	1,486,087	-
Effect of treasury share purchases September 2010	(40,328)	-
Effect of dividend re-investment plan April 2011	580,413	-
Weighted average number of ordinary shares at 30 June	291,686,234	253,680,737

#### DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share at 30 June 2011 was based on profit attributable to ordinary shareholders of \$241,390,000 (2010: \$125,064,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2011 of 291,794,306 (2010: 253,814,065), calculated as follows:

#### PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS (DILUTED)

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Net profit attributable to ordinary shareholders (diluted)	241,390	125,064

#### WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (DILUTED)

	CONSOLIDATED	
	2011	2010
Issued ordinary shares at 1 July	254,333,109	243,980,249
Effect of shares issued	37,393,453	9,700,488
Effect of treasury shares purchased	(40,328)	-
Effect of unvested rights and vested rights not issued	108,072	133,328
Weighted average number of ordinary shares (diluted) at 30 June	291,794,306	253,814,065

### 15. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Cash at bank and on hand	173,157	115,697
Bank deposits	242,004	232,519
Cash and cash equivalents in the statement of cash flows	415,161	348,216

The weighted average effective interest rate on the outstanding bank term deposits is 5.9% (2010: 5.7%). The deposits have a weighted average maturity of 80 days (2010: 62 days).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 16. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Trade receivables	47,991	70,898
Other receivables and prepayments <sup>(i)</sup>	422,901	20,805
Amounts receivable from related entities – unsecured	265,684	117,402
	736,576	209,105
<b>NON-CURRENT</b>		
Security deposits	35	35
Other receivables and prepayments <sup>(i)</sup>	27,454	-
Amounts receivable from related entities – unsecured	78,679	75,274
	106,168	75,309

No impairment losses (2010: \$Nil) have been 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 28.

(i) Included in other receivables and prepayments is an amount of \$54.9 million due from some of the participants of the CMJV in relation to the Codrilla sell-down transaction (see note 7). This amount represents the fair value of the deferred consideration on the transaction applying a discount rate relevant to the timing of the expected cash flows.

Other receivables and prepayments also includes an amount of \$360 million due from MCG Holdings Pty Ltd (MCGH). On 24 August 2010, Macarthur Coal Limited advised of its intention to acquire a 90% interest in MDL 162 for \$334.35 million to be funded via a fully underwritten Institutional Placement and Share Purchase Plan.

Following successful completion of the Institutional Placement on 25 August 2010, Macarthur Coal Limited entered into a loan facility agreement with MCG Coal Holdings Pty Ltd, MCG Coal Pty Ltd, MCG Resources Pty Ltd and Fortrus Resources Pty Ltd (the "MCG Companies") on 1 September 2010 to provide MCG Coal Holdings Pty Ltd with \$360 million to finalise the purchase of MDL 162 from Stanwell Corporation Limited. Macarthur Coal Limited agreed to subscribe for 90% of the shares in MCG Coal Holdings Pty Ltd for \$334.35 million. The transaction was expected to be completed on 10 May 2011.

Non-performance by the other party to the transaction, has resulted in Macarthur Coal Limited commencing litigation for specific performance under the loan facility agreement. The original loan amount is classified as a loan receivable pending the outcome of ongoing legal proceedings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 17. INVENTORIES

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Raw materials and consumables, at cost	10,863	11,282
Coal stocks, at cost	28,063	38,480
	38,926	49,762
<b>NON-CURRENT</b>		
Raw materials and consumables, at cost	4,368	-
	4,368	-

Refer Note 23 for details of security over inventories.

Raw materials, consumables and changes in coal stocks recognised as cost of sales amounted to \$351,800,000 (2010: \$331,380,000).

### 18. OTHER FINANCIAL ASSETS

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Cash and deposits – not at call	38,286	26,211
Foreign currency derivative contracts	2,772	-
	41,058	26,211
<b>NON-CURRENT</b>		
Deposits – not at call	7,035	4,263
	7,035	4,263

Non-current deposits – not at call have been pledged as collateral for arrangements relating to Wiggins Island feasibility study costs, refer Notes 23 and 32.

The Group's exposure to credit, currency and interest rate risks related to other financial assets is disclosed in Note 28.

### 19. OVERBURDEN IN ADVANCE

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Overburden in advance	182,256	146,548
<b>NON-CURRENT</b>		
Overburden in advance	21,824	19,905



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 20. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2011 \$'000	2010* \$'000
Mining property and development (including mining rights and coal resources)		
At cost	162,107	153,053
Less accumulated depreciation	(66,542)	(61,423)
	95,565	91,630
Freehold land		
At cost	3,730	3,730
Buildings and infrastructure		
At cost	96,945	95,277
Less accumulated depreciation	(58,703)	(51,952)
	38,242	43,325
Plant and equipment		
At cost	31,164	23,359
Less accumulated depreciation	(9,294)	(6,640)
	21,870	16,719
Leased assets		
At cost	116,644	116,644
Less accumulated depreciation	(40,429)	(25,388)
	76,215	91,256
Capital works in progress		
At cost	4,982	4,055
	240,604	250,715

Refer to Note 23 for details of security over property, plant and equipment.

\* Following a detailed review of joint venture development expenditure, \$16,913,000 was reclassified as Exploration and Evaluation relating to 2010. This had the impact of decreasing Mining Property and Development cost as at 1 July 2010 by \$16,913,000 with a corresponding increase in Exploration and Evaluation Assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED	
	2011 \$'000	2010* \$'000
<b>RECONCILIATIONS</b>		
Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:		
<b>Mining property and development</b>		
Carrying amount at 1 July	91,630	96,653
Additions	12	326
Reclassification from exploration and evaluation assets	9,561	-
Effect of movement in rehabilitation asset	(519)	1,836
Depreciation	(5,119)	(7,185)
Carrying amount at 30 June	95,565	91,630
<b>Freehold land</b>		
Carrying amount at 1 July	3,730	3,730
Additions	-	-
Carrying amount at 30 June	3,730	3,730
<b>Buildings and infrastructure</b>		
Carrying amount at 1 July	43,325	40,301
Additions	412	28
Transfers from capital works in progress	1,817	11,534
Effect of movement in dismantling asset	(561)	(1,617)
Depreciation	(6,751)	(6,921)
Carrying amount at 30 June	38,242	43,325
<b>Plant and equipment</b>		
Carrying amount at 1 July	16,719	13,402
Additions	1,395	89
Transfers from capital works in progress	7,090	5,535
Disposals	(294)	(41)
Depreciation	(3,040)	(2,266)
Carrying amount at 30 June	21,870	16,719
<b>Leased assets</b>		
Carrying amount at 1 July	91,256	102,236
Additions	-	5,024
Depreciation	(15,041)	(16,004)
Carrying amount at 30 June	76,215	91,256

Refer to Note 23 for details of security over property, plant and equipment.

\* Following a detailed review of joint venture development expenditure, \$16,913,000 was reclassified as Exploration and Evaluation relating to 2010. This had the impact of decreasing Mining Property and Development cost as at 1 July 2010 by \$16,913,000 with a corresponding increase in Exploration and Evaluation Assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>RECONCILIATIONS (CONTINUED)</b>		
<i>Capital works in progress</i>		
Carrying amount at 1 July	4,055	13,562
Additions	9,834	7,562
Transfers to other classes of property, plant and equipment	(8,907)	(17,069)
Carrying amount at 30 June	4,982	4,055

The following depreciation was recognised as an expense in the profit and loss:

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Mining property and development	5,225	6,863
Buildings and infrastructure	6,892	6,825
Plant and equipment	3,095	2,192
Leased assets	15,354	15,399
	30,566	31,279

#### 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 is secured by lease obligations (refer Note 23). At 30 June 2011, the net carrying amount of leased assets was \$76,215,000 (2010: \$91,256,000).

### 21. EXPLORATION AND EVALUATION ASSETS

	CONSOLIDATED	
	2011 \$'000	2010* \$'000
Costs carried forward in respect of areas of interest in exploration and/or evaluation - intangible:	100,309	98,483
<b>COST</b>		
Balance at 1 July	98,483	87,829
Exploration and evaluation costs disposed of	(1,130)	-
Exploration costs transferred to PPE	(9,561)	-
Exploration and evaluation costs capitalised	12,517	10,654
Balance at 30 June	100,309	98,483

The ultimate recoupment of costs carried forward as exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

\*Restated. See note 20.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 22. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Trade payables	28,265	28,787
Other payables and accrued expenses	49,351	67,372
Amounts payable to related entities - unsecured	24,142	29,518
	101,758	125,677

The Group's exposure to currency and liquidity risk to trade and other payables is disclosed in Note 28.

### 23. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 28.

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT LIABILITIES</b>		
Finance lease liabilities	18,739	13,890
Deferred liability for acquisition of mining interest - unsecured	2,030	1,932
	20,769	15,822
<b>NON-CURRENT LIABILITIES</b>		
Finance lease liabilities	61,040	79,526
Deferred liability for acquisition of mining interest - unsecured	3,503	4,074
	64,543	83,600

#### 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 10.2% (2010: 10.1%) based on 5.2% (2010: 5.1%) interest plus a risk adjusted margin.

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>FACILITIES UTILISED AT REPORTING DATE</b>		
Bank loans - Corporate Facility		
• Bank Guarantee Facility	64,500	64,676
• Cash backed bank guarantees	6,500	4,263
	71,000	68,939

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 23. LOANS AND BORROWINGS (CONTINUED)

#### CORPORATE FUNDING FACILITY

##### Bank Loans

The Group executed a new 3 year A\$330,000,000 Corporate Funding Facility on 30 November 2010. The purpose of the Corporate Funding Facility is to provide bank guarantee facilities, additional funds for general corporate purposes within the Group and working capital for operations. The facility is held by a controlled entity, Macarthur Coal Financing Pty Ltd.

##### Security

The Corporate Funding Facility is secured by the following:

- a guarantee provided by Macarthur Coal Limited;
- 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;
- charges over the assets and undertakings of the controlled entity, Macarthur Coal Financing Pty Ltd; and
- charges over the Company's shares in Coppabella Coal Pty Ltd and Macarthur Coal Financing 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:

	2011 \$'000	2010 \$'000
Mining property and development	114,678	108,887
Land	3,730	3,730
Buildings and infrastructure	38,242	43,325
Plant and equipment	19,787	15,322
Leased assets (refer below)	76,215	91,256
Capital works in progress	4,982	4,055
Receivables	78,714	75,309
Overburden in advance	21,824	19,905
	358,172	361,789

#### CASH BACKED BANK GUARANTEES

The Group utilises cash backed guarantees in addition to the Corporate Funding Facility. No facility limit exists on these instruments.

#### FINANCE LEASE LIABILITIES

Finance lease liabilities of the Group are payable as follows:

	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
	2011 \$'000	2011 \$'000	2011 \$'000	2010 \$'000	2010 \$'000	2010 \$'000
Less than one year	23,605	5,119	18,486	20,329	6,439	13,890
Between one and five years	48,747	11,713	37,034	62,115	14,837	47,278
More than five years	26,466	2,460	24,006	36,703	4,455	32,248
	98,818	19,292	79,526	119,147	25,731	93,416

##### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 24. EMPLOYEE BENEFITS

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT LIABILITIES</b>		
Liability for annual leave	5,168	3,886
Liability for sick leave	1,297	941
Liability for long-service leave	413	352
	6,878	5,179
<b>NON-CURRENT LIABILITIES</b>		
Liability for long-service leave	119	87

#### DEFINED CONTRIBUTION SUPERANNUATION FUNDS

The Group makes contributions to several defined contribution superannuation funds. The amount recognised as an expense was \$494,000 for the financial year ended 30 June 2011 (2010: \$427,000).

#### LONG SERVICE LEAVE INDUSTRY FUND

The Group makes contributions to the Coal Mining Industry Leave Fund. A total of \$1,221,000 was paid to the fund for the financial year ended 30 June 2011 (2010: \$897,000).

#### SHARE-BASED PAYMENTS

##### *Long Term Incentive Plan (LTIP)*

Each financial year the Group grant performance rights to Executives and other nominated senior managers to provide the plan participants with the incentive to deliver long-term growth in shareholder value.

The number of performance rights granted under the LTIP is set as a percentage of total fixed remuneration determined by the Nomination and Remuneration Committee (NRC). Performance rights are granted at no cost to participants. Each performance right granted entitles the participant to one ordinary share in the Company, subject to satisfaction of performance conditions set by the Board and NRC over a three year performance period. The rights expire on termination of an executive's employment prior to the vesting date or upon failure to achieve the performance hurdles.

Shares to be awarded under the LTIP are acquired on market, avoiding dilution of shareholder equity, and placed in trust for employees until such time as the employee elects to have the shares transferred from the trust. Shares carry full dividend and voting rights upon allocation.

The performance rights and their allocation to shares are subject to the following performance conditions:

- 30% ➔** linked to growth in the Group's Earnings Per Share (EPS)
- 50% ➔** linked to Total Shareholder Return (TSR) targets
- 20% ➔** linked to Return on Invested Capital (ROIC).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 24. EMPLOYEE BENEFITS (CONTINUED)

#### SHARE-BASED PAYMENTS (CONTINUED)

A summary of performance rights granted to Executives and other participants are as follows:

GRANT DATE	PERFORMANCE PERIOD	VESTING DATE	FAIR VALUE OF GRANT	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	VESTED DURING THE YEAR	FORFEITED DURING THE YEAR <sup>(1)</sup>	BALANCE AT THE END OF THE YEAR
<b>2011</b>								
14 Oct 2008	1 July 2008 to 30 June 2011	30 June 2011	\$3.55	49,237	-	(18,853)	(30,384)	-
29 June 2009	1 July 2009 to 30 June 2012	30 June 2012	\$5.44	132,563	-	-	(36,098)	96,465
30 June 2011	1 July 2010 to 30 June 2013	30 June 2013	\$7.31	-	94,827	-	-	94,827
Total				181,800	94,827	(18,853)	(66,482)	191,292
<b>2010</b>								
14 Oct 2008	1 July 2007 to 30 June 2010	30 June 2010	\$5.31	66,101	-	(49,395)	(16,706)	-
14 Oct 2008	1 July 2008 to 30 June 2011	30 June 2011	\$3.55	59,511	-	-	(10,274)	49,237
29 June 2009	1 July 2009 to 30 June 2012	30 June 2012	\$5.44	158,237	-	-	(25,674)	132,563
Total				283,849	-	(49,395)	(52,654)	181,800

(1) Forfeited performance rights relate to those rights with a vesting date of 30 June 2011 where performance conditions have not been met and those rights originally granted to employees who have since left the group and have therefore forfeited their rights.

#### Fair value of rights granted

The fair value at each grant date is independently determined using the following valuation models:

- EPS and ROIC – Binomial Tree Methodology
- TSR – Monte-Carlo Simulation

This value will not be equal to the market value of a share at the commencement of the performance period as the performance rights are contingent rights to shares in the future. The fair value of the performance rights at the grant date is influenced by the Company's share price at the date of grant, volatility of the underlying shares, the risk free rate of return, expected dividend yield, time to maturity and the likelihood that vesting conditions relating to market-based hurdles will be met. Expected volatility of the Company is estimated based on the historic volatility of the market price of the Company's shares.

The table below summarises the key assumptions adopted for valuation of the awards:

	PERFORMANCE RIGHTS 2009	PERFORMANCE RIGHTS 2010	PERFORMANCE RIGHTS 2011
Grant Date	14 October 2008	29 June 2009	30 June 2011
Weighted average fair value at date of grant	\$3.55	\$5.44	\$7.31
Share price at date of grant	\$6.53	\$6.63	\$10.95
Expected volatility	60%	75%	46%
Dividend yield	8.3%	3.0%	5.5%
Expected life	2.8 years	3.0 years	2.0 years
Risk free interest rate	4.64%	4.62%	4.68%

The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 24. EMPLOYEE BENEFITS (CONTINUED)

#### SHARE-BASED PAYMENTS (CONTINUED)

##### Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	NOTE	CONSOLIDATED	
		2011 \$'000	2010 \$'000
Expense arising from 2008 performance rights		-	114
Expense arising from 2009 performance rights		23	55
Expense arising from 2010 performance rights		32	199
Expense arising from 2011 performance rights		1	-
Total expense recognised as employee costs	9	56	368

##### Employee Share Loan Plan

During the year the Group operated an Employee Share Loan Plan (ESLP) which was previously 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.

No invitations to participate in the ESLP were made in the 2011 financial year. All loans were fully repaid on the 31 December 2010 and the loan plan was closed.

All shares that were held under the ESLP ranked equally with all other shares on issue.

The Group provided 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 were used to offset any loans outstanding on the shares. Employees and contractors also provided irrevocable authority to the Company to deduct 1% of their gross salary each month in repayment of the loan.

The loan was repayable if:

- (a) 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 held the shares as security over the loan until the loan was repaid.

The market price of shares held under the ESLP as at 30 June 2011 was \$Nil as the loan plan has been closed (2010: \$12.12).

There were no other shares eligible for acquisition under the ESLP at 30 June 2011 (2010: Nil).

The number and weighted average acquisition price of shares is as follows:

	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES
	2011	2011	2010	2010
Outstanding at the beginning of the year		22,083		33,126
Granted during the year		-		-
Sold and transferred during the year	\$11.80	(22,083)	\$11.33	(11,043)
Outstanding at the end of the year		-		22,083



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 25. PROVISIONS

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Rehabilitation and dismantling	2,930	2,642
Other	-	817
	2,930	3,459
<b>NON-CURRENT</b>		
Rehabilitation and dismantling	30,263	30,398
Other	321	204
	30,584	30,602

During the financial year ended 30 June 2011, \$1,074,000 was reversed through profit or loss in respect of rehabilitation expense (2010: \$3,966,000).

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>REHABILITATION AND DISMANTLING</b>		
Balance at 1 July	33,040	35,617
Provisions reversed during the year	(1,074)	(3,966)
Provisions used during the year	(740)	(1,091)
Unwind of discount	1,967	2,480
Balance at 30 June	33,193	33,040
<b>OTHER</b>		
Balance at 1 July	1,021	197
Provisions made during year	108	870
Provisions used during year	(817)	(69)
Unwind of discount	9	23
Balance at 30 June	321	1,021

#### REHABILITATION AND DISMANTLING

In accordance with Queensland 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(m).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 26. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CURRENT</b>		
Amounts payable for future user charges (refer Note 31(e))	2,265	2,137
Foreign currency derivative contracts	-	4,502
	2,265	6,639
<b>NON-CURRENT</b>		
Amounts payable for future user charges (refer Note 31(e))	587	2,853
Other derivative liabilities	-	32,929
	587	35,782

#### OTHER DERIVATIVE LIABILITIES

In the 2008 financial year, resulting from the acquisition of Custom Mining Limited Group, the Group acquired a pre-existing obligation to transfer shares in a jointly controlled entity, Middlemount Coal Pty Ltd ("Middlemount"), to a non-related third party on the completion of certain triggering events. As per the share sale agreement, these triggering events related to milestones in the development of the Middlemount Mine project. In addition, a contractual obligation existed via a call option agreement to sell a further 20% in Middlemount to the same third party. Obligations under both agreements were accounted for as derivative contracts.

In April 2010, 2.18% of shares in Middlemount were transferred by the Group under the terms of the share sale agreement. The remaining derivative liability related to the obligation for the final sell trigger under the share sale agreement and the obligation under the call option agreement for a further 22.48%. The call option was exercised in December 2010, resulting in the derecognition of the derivative to the profit recognised on disposal (refer note 7).

### 27. CAPITAL AND RESERVES

SHARE CAPITAL	COMPANY ORDINARY SHARES	
	2011	2010
On issue at 1 July	254,333,109	243,980,249
Shares issued on equity settled transactions	47,759,234	10,352,860
On issue at 30 June – fully paid	302,092,343	254,333,109

#### ISSUANCE OF ORDINARY SHARES

Through an institutional placement on 31 August 2010; 38,149,966 ordinary shares were issued for an amount of \$11.50 per share to raise \$438,724,609. A further 4,874,993 ordinary shares were issued under a share purchase plan at \$11.33 per share on 8 October 2010 raising \$55,233,671.

Under the Macarthur Coal dividend reinvestment plan an additional 2,118,835 ordinary shares were issued on 18 October 2010 at \$11.15 per share and 2,615,440 ordinary shares were issued on 11 April 2011 at \$11.27 per share.

#### ORDINARY SHARES

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

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 net proceeds.

#### 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. Amounts are reclassified to profit or loss when the associated hedged transaction is settled.

#### SHARE-BASED PAYMENT RESERVE

The share-based payment reserve is used to recognise:

- The cumulative value recognised over the vesting period of the 2009, 2010 and 2011 share-based performance rights which have not reached the vesting date but are expected to vest; and
- The value of the 2008 and 2009 share-based performance rights that have vested based on performance conditions being met, which have not yet been settled.

#### RESERVE FOR OWN SHARES

The Reserve for the Company's Own Shares is used to recognise the cost of the Company's shares held by the Group.

The shares relate to vested performance rights for certain executives who participate in the long term incentive plan. The shares are acquired on market and placed in trust until such time as the employees elect to have the shares transferred out of the trust.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 27. CAPITAL AND RESERVES (CONTINUED)

#### DIVIDENDS

Dividends recognised in the current year by the Company are:

	CENTS PER SHARE	TOTAL AMOUNT \$	FRANKED/ UNFRANKED	DATE OF PAYMENT
<b>2011</b>				
Interim 2011 ordinary	24.0	71,874,457	Franked	11 April 2011
Final 2010 ordinary	17.0	49,722,123	Franked	18 October 2010
Total amount	41.0	121,596,580		
<b>2010</b>				
Interim 2010 ordinary	8.0	20,346,649	Franked	21 April 2010
Final 2009 ordinary	13.0	33,063,304	Franked	30 September 2009
Total amount	21.0	53,409,953		

Franked dividends declared or paid during the year were fully franked at the tax rate of 30%.

#### DIVIDENDS NOT RECOGNISED AT THE END OF THE REPORTING PERIOD

Subsequent to 30 June 2011, the following dividends were proposed by the Directors. The financial effect of these dividends has not been recognised in the financial statements for the year ended 30 June 2011 and will be recognised in subsequent financial reports.

The declaration and subsequent payment of dividends has no income tax consequences.

	CENTS PER SHARE	TOTAL AMOUNT \$	FRANKED/ UNFRANKED	DATE OF PAYMENT
Final ordinary	16.0	48,334,775	Franked	9 September 2011

#### DIVIDEND FRANKING ACCOUNT

	COMPANY	
	2011 \$'000	2010 \$'000
30% franking credits available to shareholders of the Company for subsequent financial years	148,841	131,129

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

- franking credits/debits that will arise from the payment/receipt of the current tax liabilities/assets;
- franking debits that will arise from the payment of dividends recognised as a liability at year end;
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at year end; and
- 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 reporting date but not recognised as a liability is to reduce it by \$20,715,000 (2010: \$18,530,000).

In accordance with the tax consolidation legislation, Macarthur Coal Limited as the head entity of the tax-consolidated Group has also assumed the benefit of \$148,841,000 (2010: \$131,129,000) franking credits.

### 28. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of 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 financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	NOTE	2011 \$'000	2010 \$'000
Cash and cash equivalents	15	415,161	348,216
Cash and deposits - not at call	18	45,321	30,474
Trade and other receivables	16	842,744	284,414
Forward exchange contracts used for hedging - assets	18	2,772	-
		1,305,998	663,104

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 28. FINANCIAL INSTRUMENTS (CONTINUED)

#### CREDIT RISK (CONTINUED)

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2011 \$'000	2010 \$'000
Asia	34,451	20,881
Europe	6,258	32,694
Americas	7,107	17,323
Australia	175	-
	47,991	70,898

Concentration of credit risk at the reporting date on trade receivables was: Asia 72%, Europe 13%, Americas 15% and Australia less than 1% (2010: Asia 30%, Europe 46%, Americas 24% and Australia nil%). The geographical mix at the reporting date for trade receivables is influenced by the timing of shipments to customers during the month of June. This arises due to sales being settled within the appropriate contractual terms and conditions following sales recognition. To give a better understanding of the average exposure over the course of a year, the 2011 sales distribution by geographic regions is Asia 67%, Europe 20%, Americas 13% and Australia less than 1% (2010: Asia 63%, Europe 25%, Americas 12% and Australia nil%).

Refer note 16 for credit risk exposure on other receivables and prepayments.

#### IMPAIRMENT LOSSES

None of the Group's trade receivables are past due (2010: \$Nil).

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.

#### LIQUIDITY RISK

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	2011						
	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
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>							
Finance lease liabilities	79,780	98,819	11,803	11,803	11,560	37,186	26,467
Deferred liability for acquisition of mining interest	5,533	5,199	1,040	1,040	2,079	1,040	-
Amounts payable for future user charges	2,852	2,978	1,191	1,191	596	-	-
Trade and other payables	101,758	101,758	101,758	-	-	-	-
<b>DERIVATIVE FINANCIAL LIABILITIES</b>							
Forward exchange contracts used for hedging:							
Outflow	111,589	111,589	111,589	-	-	-	-
Inflow	(114,361)	(114,361)	(114,361)	-	-	-	-
	187,151	205,982	113,020	14,034	14,235	38,226	26,467

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 28. FINANCIAL INSTRUMENTS (CONTINUED)

#### LIQUIDITY RISK (CONTINUED)

	CARRYING AMOUNT \$'000	CONTRACTUAL CASHFLOWS \$'000	6 MONTHS OR LESS \$'000	2010			
				6-12 MONTHS \$'000	1-2 YEARS \$'000	2-5 YEARS \$'000	MORE THAN 5 YEARS \$'000
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>							
Finance lease liabilities	93,416	(119,147)	(10,164)	(10,165)	(23,605)	(38,510)	(36,703)
Deferred liability for acquisition of mining interest	6,006	(7,279)	(1,040)	(1,040)	(2,079)	(3,120)	-
Amounts payable for future user charges	4,990	(5,361)	(1,191)	(1,191)	(2,383)	(596)	-
Trade and other payables	125,677	(125,677)	(125,677)	-	-	-	-
<b>DERIVATIVE FINANCIAL LIABILITIES</b>							
Forward exchange contracts used for hedging:							
Outflow	234,771	(234,771)	(234,771)	-	-	-	-
Inflow	(230,269)	230,269	230,269	-	-	-	-
	234,591	(261,966)	(142,574)	(12,396)	(28,067)	(42,226)	(36,703)

Foreign exchange contracts used for hedging have a maturity analysis which is expected to match the contracted cash inflows from the receipt of sale proceeds. It is not expected that the cash inflows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

#### CURRENCY RISK

##### Exposure to currency risk

The Group's exposure to foreign currency risk at the reporting date was as follows, based on notional amounts:

	2011	2010
	USD \$'000	USD \$'000
Trade receivables	51,537	60,426
Trade and other payables	(7,980)	(20,312)
Gross financial position exposure	43,557	40,114
Contracted forecast sales	119,728	244,013
Estimated forecast purchases	(2,654)	(9,640)
Gross exposure	117,074	234,373
Forward exchange contracts	(118,371)	(197,519)
Net exposure	42,260	76,968

In line with the Group's Treasury Policy, additional forward exchange contracts have been placed post 30 June 2011 for the 2012 financial year as fixed price sales contracts have been agreed.

The following significant exchange rates applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2011	2010	2011	2010
USD	0.9881	0.8759	1.0739	0.8523

##### Sensitivity analysis

A 10% strengthening of the Australian dollar against the United States dollar at 30 June would have 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 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 28. FINANCIAL INSTRUMENTS (CONTINUED)

#### CURRENCY RISK (CONTINUED)

	EQUITY \$'000	PROFIT OR LOSS \$'000
<b>30 JUNE 2011</b>		
USD	(10,144)	(3,687)
<b>30 JUNE 2010</b>		
USD	(21,288)	(4,279)

A 10% weakening of the Australian dollar against the United States dollar at 30 June would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

#### INTEREST RATE RISK

##### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	CARRYING AMOUNT	
	2011 \$'000	2010 \$'000
<b>FIXED RATE INSTRUMENTS</b>		
Financial liabilities	82,632	(98,406)
	82,632	(98,406)
<b>VARIABLE RATE INSTRUMENTS</b>		
Financial assets	460,482	378,690
Financial liabilities	5,533	(6,006)
	466,015	372,684

##### 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 2010.

	PROFIT OR LOSS		EQUITY	
	100BP INCREASE \$'000	100BP DECREASE \$'000	100BP INCREASE \$'000	100BP DECREASE \$'000
<b>30 JUNE 2011</b>				
Variable rate instruments	(61)	61	-	-
Cash flow sensitivity (net)	(61)	61	-	-
<b>30 JUNE 2010</b>				
Variable rate instruments	(107)	107	-	-
Cash flow sensitivity (net)	(107)	107	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 28. FINANCIAL INSTRUMENTS (CONTINUED)

#### FAIR VALUES

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position are as follows:

	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	2011 \$'000	2011 \$'000	2010 \$'000	2010 \$'000
Cash and cash equivalents	415,161	415,161	348,216	348,216
Trade and other receivables	842,744	842,744	284,414	284,414
Cash and deposits – not at call	45,321	45,321	30,474	30,474
Foreign currency derivative contracts:				
Assets	2,772	2,772	-	-
Liabilities	-	-	(4,502)	(4,502)
Trade and other payables	(101,759)	(101,759)	(125,677)	(125,677)
Deferred liability for acquisition of mining interest	(5,533)	(5,533)	(6,006)	(6,006)
Finance lease liabilities	(79,780)	(77,284)	(93,416)	(89,141)
Other derivative liabilities*	-	-	(32,929)	(32,929)
Employee benefits	(6,997)	(6,997)	(5,266)	(5,266)
Other financial liabilities	(2,852)	(2,852)	(4,990)	(4,990)
Unrecognised gains		2,496		4,275

\* Refer Note 26 for details.

#### ESTIMATION OF FAIR VALUES

The methods used in determining the fair values of financial instruments are discussed in Note 4.

#### FAIR VALUE HIERARCHY

The following table presents the Group's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1 \$'000	LEVEL 2 \$'000	LEVEL 3 \$'000	TOTAL \$'000
<b>30 JUNE 2011</b>				
Foreign currency derivative contracts asset	-	2,772	-	2,772
Other derivative liabilities	-	-	-	-
	-	2,772	-	2,772
<b>30 JUNE 2010</b>				
Foreign currency derivative contracts liability	-	4,502	-	4,502
Other derivative liabilities	-	-	32,929	32,929
	-	4,502	32,929	37,431

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 28. FINANCIAL INSTRUMENTS (CONTINUED)

#### FAIR VALUE HIERARCHY (CONTINUED)

The following table reconciles Level 3 of the fair value hierarchy from the opening balance at 1 July to the closing balance at 30 June:

	2011 OTHER DERIVATIVE LIABILITIES \$'000	2010 OTHER DERIVATIVE LIABILITIES \$'000
Opening balance	(32,929)	(18,919)
Loss recognised in profit and loss (within other expenses)	(2,121)	(14,010)
Settlement gain recognised in profit and loss (within other income)	35,050	-
Closing balance	-	(32,929)

Although the Group believes that its estimate of fair value of the derivative financial instruments is appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

#### INTEREST RATES USED FOR DETERMINING FAIR VALUE

The Group uses the government yield curve as of reporting date plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2011 %	2010 %
Derivatives	-	3.1 – 4.3
Deferred liability for acquisition of mining interest – Note 23	10.15	10.10
Other receivables and prepayments (deferred) – Note 16	5.50	-

### 29. 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		PRINCIPAL ACTIVITY
	2011	2010	
Coppabella and Moorvale Joint Venture	73.3%	73.3%	Coal production
Monto Coal Joint Venture	41% <sup>(1)</sup>	41% <sup>(1)</sup>	Exploration and evaluation
Olive Downs (South) Joint Venture	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

(1) 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 30 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 2011, the contribution of the Coppabella and Moorvale Joint Venture to the operating profit before tax of the Group was \$230,281,000 (2010: \$213,906,000). The value of the Group's 73.3% share of the Coppabella and Moorvale Joint Venture coal sold (pre hedging) during the year was \$666,376,000 (2010: \$630,264,000).

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 29. INTERESTS IN JOINT VENTURE OPERATIONS (CONTINUED)

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).

	2011 \$'000	2010* \$'000
<b>CURRENT ASSETS</b>		
Trade and other receivables	11,763	23,067
Inventories	38,926	49,762
Other financial assets	38,286	26,211
Overburden in advance	182,256	146,548
<b>TOTAL CURRENT ASSETS</b>	<b>271,231</b>	<b>245,588</b>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	2,103	73,718
Inventories	4,368	-
Other financial assets	7,035	4,263
Property, plant and equipment	238,690	249,318
Exploration and evaluation assets	100,309	98,483
Overburden in advance	21,824	19,905
<b>TOTAL NON-CURRENT ASSETS</b>	<b>374,329</b>	<b>445,687</b>
<b>TOTAL ASSETS</b>	<b>645,560</b>	<b>691,275</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	59,569	84,000
Loans and borrowings	18,740	13,890
Provisions	2,930	2,642
Other financial liabilities	2,265	2,137
<b>TOTAL CURRENT LIABILITIES</b>	<b>83,504</b>	<b>102,669</b>
<b>NON-CURRENT LIABILITIES</b>		
Loans and borrowings	61,040	79,526
Provisions	30,263	30,398
Other financial liabilities	587	2,853
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>91,890</b>	<b>112,777</b>
<b>TOTAL LIABILITIES</b>	<b>175,394</b>	<b>215,446</b>

Refer to Notes 31 and 32 for details of commitments and contingent liabilities.

Included in the Group's profit or loss 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).

	2011 \$'000	2010 \$'000
Revenue	687,325	670,502
Expenses	(465,997)	(523,022)
<b>NET PROFIT</b>	<b>221,328</b>	<b>147,480</b>

\*Restated. See note 20.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 30. EQUITY ACCOUNTED INVESTEES

	2011 \$'000	2010 \$'000
Investments in jointly controlled entities	241,161	338,554

The Group's share of losses from its equity accounted investees for the year was \$5,671,000 (2010: \$10,934,000). During the years ended 30 June 2011 and 30 June 2010 the Group has not received any dividends in respect of its interests in equity accounted investees.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

	MIDDLEMOUNT COAL PTY LTD \$'000	MONTA COAL 2 PTY LTD \$'000	CUSTOM MINING DINGO PTY LTD (IN LIQUIDATION) \$'000
<b>30 JUNE 2011</b>			
Percentage held at the reporting date	50.0003%	80.39%	N/A
Current assets	36,373	10,201	-
Non-current assets	362,315	61,752	-
<b>TOTAL ASSETS</b>	<b>398,688</b>	<b>71,953</b>	<b>-</b>
Current liabilities	(115,216)	(504)	-
Non-current liabilities	(263,634)	(7,568)	-
<b>TOTAL LIABILITIES</b>	<b>(378,850)</b>	<b>(8,072)</b>	<b>-</b>
Income	20	516	20
Expenses	(15,341)	(1,734)	-
<b>LOSS</b>	<b>(15,321)</b>	<b>(1,218)</b>	<b>20</b>
<b>30 JUNE 2010</b>			
Percentage held at the reporting date	72.48%	80.39%	85.715%
Current assets	14,668	8,177	-
Non-current assets	200,736	67,069	-
<b>TOTAL ASSETS</b>	<b>215,404</b>	<b>75,246</b>	<b>-</b>
Current liabilities	182,007	2,579	-
Non-current liabilities	-	7,568	20
<b>TOTAL LIABILITIES</b>	<b>182,007</b>	<b>10,147</b>	<b>20</b>
Income	14,960	259	-
Expenses	(29,380)	(414)	-
<b>LOSS</b>	<b>(14,420)</b>	<b>(155)</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 30. EQUITY ACCOUNTED INVESTEEES (CONTINUED)

The principal activities of the Group's equity accounted investees along with the Group's share of losses for the year were as follows:

	PRINCIPAL ACTIVITIES	REPORTING DATE	GROUP'S SHARE OF LOSSES	
			2011 \$'000	2010 \$'000
Custom Mining Dingo Pty Ltd (in liquidation)	Dormant	30 June	-	-
Middlemount Coal Pty Ltd and its controlled entities	Operator of Middlemount Mine project	30 June	4,692	10,810
Monto Coal 2 Pty Ltd	Participant in the Monto Coal Joint Venture	30 June	979	124

#### *Middlemount Coal Pty Ltd and its controlled entities*

During the year the Group disposed of 22.48% of Middlemount coal Pty Ltd in accordance with the terms of the share sale agreement for the fixed consideration of \$97,600,000. \$52,600,000 was receivable immediately, with \$45,000,000 received on 30 June 2011.

No impairment of the investment in Middlemount Coal Pty Ltd and its controlled entities at 30 June 2011 was necessary based on the recoverable amount of the Middlemount Mine project exceeding the carrying value. The recoverable amount was based on a fair value less cost to sell model as determined internally by management. The fair value was based on the discounted cash flows to be generated from the project.

The following key assumptions were used:

- Cash flows based on the long-term project plan for the Middlemount Mine project taking into consideration long-term global coal pricing, anticipated operating and distribution infrastructure costs over the life of the project which was based on available coal reserves. Management believe that a discounted cash flow calculation longer than five years is appropriate given the long-term nature of the asset and the measured recoverable coal reserves.
- Revenues for the 2012 financial year through to the 2014 financial year are based on internally approved cash flows, and the coal price assumptions used are consistent with the average of analyst forecasts for these periods. For the periods thereafter, revenues are determined using the average of analyst forecasts for long-term coal prices. A discount to the average analyst prices has been provided for of 5% on coking coal. No discount has been applied to PCI.
- Operating and capital costs are based on current contracts and expected future costs as determined by the Group.

The values assigned to the key assumptions represented management's assessment of future industry variables and were based on both internal and external sources of information. The impact of the Australian Government's proposed carbon pricing mechanism has not been incorporated into the fair value model, however current modelling on the proposed impact indicates that the recoverable amount would continue to exceed the project carrying amount.

The above assumptions are sensitive in the following areas:

- An increase of one percentage point in the discount rate, holding all other variables constant, would have decreased fair value less cost to sell by \$32,000,000. This would not result in a material impairment.
- A five percent increase in forecast operating costs, holding all other variables constant, would have decreased fair value less cost to sell by \$66,000,000. This would not result in a material impairment.
- A five percent decrease in forecast future long-term coal prices, holding all other variables constant, would have decreased fair value less cost to sell by \$94,000,000. This would not result in a material impairment.

#### *Monto Coal 2 Pty Ltd*

No impairment of the investment in Monto Coal 2 Pty Ltd was necessary at 30 June 2011 based on the recoverable amount of the investment exceeding its carrying value. The recoverable amount was based on its fair value less costs to sell, which was determined using recent market information for similar undeveloped coal interests and other current market information.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 30. EQUITY ACCOUNTED INVESTEES (CONTINUED)

#### *Custom Mining Dingo Pty Ltd*

During 2011, a decision was made to liquidate Custom Mining Dingo Pty Ltd (in liquidation). Application for voluntary liquidation was made prior to 30 June 2011.

#### COMMITMENTS

	2011 \$'000	2010 \$'000
Share of capital expenditure commitments of jointly controlled entities payable:		
Not later than one year	13,860	8,461
	13,860	8,461
Share of mining lease commitments of jointly controlled entities payable:		
Not later than one year	51	83
Later than one year but not later than five years	192	250
Later than five years	392	515
	635	848
Share of operating commitments of jointly controlled entities payable:		
Not later than one year	57,228	15,276
Later than one year but not later than five years	264,970	186,893
Later than five years	351,831	166,831
	674,029	369,000

#### GUARANTEES

Middlemount Coal Pty Ltd has provided guarantees in relation to rehabilitation works for a mineral development license and Wiggins Island feasibility study costs. In addition, guarantees are provided in relation to Parrot Creek quarry and diversion of the Middlemount-Dysart road. Guarantees provided in relation to Wiggins Island feasibility study costs are secured by bank deposits of the same amounts.

Monto Coal 2 Pty Ltd has provided bank guarantees relating to Wiggins Island feasibility study costs, which are secured by bank deposits of the same amounts.

### 31. CAPITAL AND OTHER COMMITMENTS

	2011 \$'000	2010 \$'000
<b>(A) CAPITAL EXPENDITURE COMMITMENTS – JOINT VENTURES</b>		
Capital expenditure contracted but not provided for in the financial statements and payable:		
Not later than one year	10,737	1,135
	10,737	1,135
<b>(B) OPERATING LEASE COMMITMENTS</b>		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	3,173	2,867
Later than one year but not later than five years	8,680	6,601
Later than five years	-	1,088
	11,853	10,556

The Group leases office equipment, cars and office space under operating leases. Lease payments for the office lease are increased every year to reflect market rentals.

During the year ended 30 June 2011, \$1,318,000 was recognised as an expense in profit or loss in respect of operating leases (2010: \$1,397,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 31. CAPITAL AND OTHER COMMITMENTS (CONTINUED)

	2011 \$'000	2010 \$'000
<b>(C) MINING LEASES – JOINT VENTURES</b>		
Future mining lease rentals not provided for in the financial statements and payable:		
Not later than one year	453	416
Later than one year but not later than five years	1,604	1,381
Later than five years	2,602	2,875
	4,659	4,672
<b>(D) EXPLORATION AND EVALUATION EXPENDITURE</b>		
<b>Exploration obligations</b>		
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	1,364	797
Later than one year but not later than five years	2,419	132
	3,783	929
<b>(E) OPERATING COMMITMENTS – JOINT VENTURES</b>		
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	142,232	143,195
Later than one year but not later than five years	375,190	428,004
Later than five years	282,802	439,713
	800,224	1,010,912

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 the Coppabella and Moorvale mines and with original owners regarding royalty arrangements at both the Coppabella and Moorvale mines. As the amounts payable under the contracts vary with the coal quantities mined and sold, future commitments are not able to be reliably assessed and quantified.

Refer Note 23 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 (2011: Group share of \$596,000 per quarter; 2010: \$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 recognised at 30 June 2011 (refer Note 26).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 31. CAPITAL AND OTHER COMMITMENTS (CONTINUED)

#### (F) OTHER COMMITMENTS

##### Land Purchase

In May 2011, Macarthur Coal Ltd entered a put and call option deed with the intention of purchasing property for future mining operations. The deed allows Macarthur Coal Ltd the right to purchase the land for a total of \$75 million with \$60 million upfront and the remaining \$15 million subject to the timing of certain milestones. A security deposit of \$7.5 million paid by Macarthur Coal Ltd is included in current other receivables and prepayments at balance date (refer note 16). The transaction remained subject to ministerial approval under Land Act 1992 (Qld) at 30 June 2011 and has therefore not been recognised in the financial results at balance date.

Macarthur Coal Ltd intend to exercise their right to purchase the land under the option deed and sale agreement. The \$60 million upfront payment less the \$7.5 million security deposit will be due and payable within seven days after the satisfaction of the approval conditions which is expected to occur within the first half of the 2012 financial year.

##### 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 is secured by a charge over Olive Downs Coal Pty Ltd's interest in the Olive Downs (South) 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.

#### JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Refer Notes 30 and 34.

### 32. 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 2011. <sup>(1)</sup>

(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 23), royalties, accommodation facilities and certain joint venture undertakings.

The Company provides letters of support to the associated entities listed in Note 34, 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 future commitments of Monto Coal 2 Pty Ltd, a jointly controlled entity, in relation to royalty arrangements.

The Company on behalf of its controlled entity, Coppabella Coal Pty Ltd, has provided guarantees totalling \$Nil (2010: \$14,660,000) in favour of a supplier.

The Company, on behalf of its controlled entity, Coppabella Coal Pty Ltd, has provided a guarantee in favour of a bank in respect of payment of foreign currency derivative obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 32. CONTINGENCIES (CONTINUED)

#### GUARANTEES (CONTINUED)

The Group has provided bank guarantees totalling \$13,358,000 (2010: \$4,501,000) in respect of the Wiggins Island feasibility study and the Company's Brisbane head office. These amounts are secured by bank deposits of \$7,035,000 (2010: \$4,263,000).<sup>(1)</sup>

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling \$59,148,000 (2010: \$64,676,000) in respect of rehabilitation works, electricity, water and transport infrastructure corridor facilities.<sup>(1)</sup>

(1) These contingent liabilities are considered remote.

#### ENVIRONMENTAL

Current Queensland Government environment policy requires the preparation of an Environmental Management Plan (EM Plan) 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 EM Plan and its Plan of Operations has been accepted by the Department of Environment and Resource Management. In addition to the EM Plan and the Plan of Operations, the Group is required to lodge securities with the Department of Employment, Economic Development and Innovation to ensure compliance with relevant legislation. The total amount of the guarantees lodged with the Department of Employment, Economic Development and Innovation as at 30 June 2011 is \$35,327,000 (2010: \$35,251,000) (included in the amount of guarantees referred to above).<sup>(1)</sup>

(1) These contingent liabilities are considered remote.

#### LITIGATION

##### Monto

A statement of claim was delivered to Monto Coal Pty Ltd, a wholly owned member of the Group, 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 alleging that Monto Coal 2 Pty Ltd breached the Monto Coal Joint Venture Agreement and Monto Coal Pty Ltd breached the Monto Coal Management Agreement.

An additional statement of claim was delivered to Macarthur Coal Limited on 23 November 2010 from the same minority interest holders in the Monto Coal Joint Venture, alleging that Macarthur Coal Limited induced Monto Coal 2 Pty Ltd and Monto Coal Pty Ltd to breach the Monto Coal Joint Venture Agreement and the Monto Coal Management Agreement respectively.

The statement of claim seeks damages from the three defendants collectively of no less than \$1,193,200,000 plus interest and costs.

Monto Coal Pty Ltd is the manager of the Monto Coal Joint venture pursuant to the 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 claims and will vigorously defend their position.

The Directors' remain of the opinion disclosure of any further information about the above matter would be prejudicial to the interests of the Group.

##### MDL 162

Following successful completion of the Institutional Placement on 26 August 2010, Macarthur Coal Limited entered into a loan facility agreement with MCG Coal Holdings Pty Ltd, MCG Coal Pty Ltd, MCG Resources Pty Ltd and Fortrus Resources Pty Ltd (the "MCG Companies") on 1 September 2010 to provide MCG Coal Holdings Pty Ltd with \$360 million to finalise the purchase of MDL 162 from Stanwell Corporation. Macarthur Coal Limited agreed to subscribe for 90% of the shares in MCGH for \$334.35 million. The transaction was expected to be completed on 10 May 2011.

Non-performance by the other party to the transaction, has resulted in Macarthur Coal Limited commencing litigation for specific performance under the loan facility agreement. The original loan amount is classified as a loan receivable pending the outcome of ongoing legal proceedings.

The matter has been placed on the commercial list to ensure that the matter is progressed expeditiously.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 33. GROUP ENTITIES

	OWNERSHIP INTEREST	
	2011 %	2010 %
<b>PARENT ENTITY</b>		
Macarthur Coal Limited		
<b>SUBSIDIARIES</b>		
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	100
Moorvale Coal Pty Ltd (in liquidation)	100*	100
Macarthur Coal (Equipment) Pty Ltd	100	100
Monto Coal Pty Ltd	100	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 Pty Ltd	100	100
Custom Mining Management Pty Ltd	100	100
Custom Management Services Pty Ltd	100	100
Custom Mining (Monto) Pty Ltd	100	100
Macarthur Coal Performance Share Plan Trust	100	100
Macarthur Coal Financing Pty Ltd	100	-
Macarthur Berrigurra Pty Ltd	100	-

All subsidiaries were incorporated and carry on business in Australia.

\* Moorvale Coal Pty Ltd (in liquidation) was placed into voluntary liquidation on 9 August 2011.

### 34. INVESTMENTS IN ASSOCIATED ENTITIES

	PRINCIPAL ACTIVITIES	REPORTING DATE	INTEREST HELD	
			2011 %	2010 %
Macarthur Coal (C&M Management) Pty Ltd <sup>(1)</sup>	Manager of the Coppabella and Moorvale Joint Venture	30 June	73.3	73.3
Bistrotel Pty Ltd <sup>(1)</sup>	Property Owner	30 June	73.3	73.3
Macarthur Coal (C&M Equipment) Pty Ltd <sup>(1)</sup>	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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 35. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS

#### ACQUISITIONS

There were no acquisitions in the current or prior year.

#### DISPOSALS

On 30 June 2011, the Group completed the partial disposal of the Codrilla project. The Group held an 85% interest in the project through its participation in the Bowen Basin Joint Venture. Following the sell-down into the CMJV the Group's interest in the project was effectively reduced to 73.3%. The total consideration receivable from external parties, at present value, is \$69.8 million, and is due in three instalments 20% receivable on contract completion, 40% receivable on granting of the mining lease and 40% due on first raiiling. The sale is unconditional and backstop dates are applicable to the timing of payments. The Group recognised a profit (before tax) on disposal of \$68,812,000 for the year ended 30 June 2011.

#### Effect of Disposal

The disposal had the following effect on the Group's assets and liabilities for the year ended 30 June 2011:

	PRE-DISPOSAL CARRYING AMOUNT \$'000	FAIR VALUE ADJUSTMENT \$'000	RECOGNISED VALUES ON DISPOSAL \$'000
Codrilla exploration and evaluation asset	7,474	-	7,474
Net identifiable assets and liabilities	7,474	-	7,474
Carrying value of interest disposed			1,029
Consideration received, satisfied in cash			14,976
Consideration receivable <sup>(1)</sup>			59,904
Total cash consideration received/receivable			74,880

(1) The consideration has been discounted to fair value at the completion date of \$54.9 million based on a discount rate of 5.5%.

### 36. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	241,390	125,064
Adjustments for:		
Depreciation and amortisation	30,566	31,279
Share-based payments	(40)	425
Amounts reversed from provisions	(1,434)	(4,475)
Unrealised foreign exchange losses	429	1,142
Interest on loans and borrowings	8,786	8,072
Interest on unwinding of discount	2,429	4,097
Interest on deferred income	(1,236)	-
Loss on disposal of property, plant and equipment	152	42
(Gain)/loss on partial disposal of interest in equity accounted investee	(44,148)	1,641
Gain on sale of partial disposal of mining project	(84,201)	-
Change in fair value of other derivative liabilities	2,121	14,010
Share of loss of equity accounted investees	5,671	10,934
<b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>	160,485	192,231
Decrease in income tax payable	(34,096)	(3,557)
Decrease/(increase) in net deferred tax liabilities/assets	14,605	(12,353)
Decrease/(increase) in trade and other receivables	24,747	(35,975)
Decrease/(increase) in inventories	6,468	(5,963)
(Increase)/decrease in overburden in advance	(37,627)	3,501
(Decrease)/increase in trade and other payables	(18,544)	38,197
Increase in employee benefits	1,731	1,047
<b>NET CASH FROM OPERATING ACTIVITIES</b>	117,769	177,128

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 37. RELATED PARTIES

The following were Key Management Personnel of the Group at any time during the year and unless otherwise indicated were Key Management Personnel for the entire year:

#### Non-Executive Directors

Keith DeLacy (Chairman)  
 Roger Marshall  
 Peter Forbes  
 Chen Zeng  
 Martin Kriewaldt  
 Terry O'Reilly

#### Executive Director

Nicole Hollows

#### Executives

Gary Lee (Chief Development Officer, Macarthur Coal Limited)  
 Lisa Dalton (EGM Corporate Services & Company Secretary, Macarthur Coal Limited)  
 Graham Yerbury (Chief Financial Officer, Macarthur Coal Limited, appointed 6 September 2010)  
 Rod Dyer (EGM Projects, Macarthur Coal Limited, appointed 16 November 2010)  
 Scott Croger (Vice President, Marketing, Macarthur Coal Limited, appointed 1 September 2010)  
 Allan Fidock (EGM Operations, Macarthur Coal Limited, appointed 1 February 2011)  
 Michael Gray (EGM Projects & Infrastructure, Macarthur Coal Limited, resigned 15 September 2010)  
 Peter Kane (Chief Operating Officer, Macarthur Coal Limited, resigned 18 February 2011)

#### Key management compensation

The Key Management Personnel compensation included in 'personnel expenses' (see Note 9) are as follows:

	2011 \$	2010 \$
Short-term employee benefits	5,580,036	4,045,484
Other long-term benefits	53,820	143,745
Post-employment benefits	282,757	240,407
Share-based payments <sup>(1)</sup>	782,485	1,190,124
	6,699,098	5,619,760

(1) Includes shares provided to Directors as part of compensation and expense during the year relating to performance rights to Executives.

#### 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 Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at the reporting date.

#### EQUITY INSTRUMENTS

Performance rights may be issued pursuant to the Long Term Incentive Plan. Refer Note 24 for further details.

#### OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS

There were no options held by Key Management Personnel at any time during the year. 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 2010 or 2011. As at 30 June 2011, a number of performance rights held by Key Management Personnel of the Group vested, but had not been settled. Shares purchased in September 2010 and remain held in trust at 30 June 2011 relating to vested performance rights at 30 June 2010 were 49,395 (2010: nil). Refer to Note 24 'Share-based payments - Long Term Incentive Plan' for further details. In addition, detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 37. RELATED PARTIES (CONTINUED)

#### MOVEMENTS IN SHARES

The movement during the year 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 2010	ACQUISITIONS	RECEIVED ON EXERCISE OF OPTIONS OR RIGHTS <sup>(4)</sup>	DISPOSALS	HELD AT 30 JUNE 2011
<b>DIRECTORS</b>					
Keith DeLacy	221,740	12,500 <sup>(2)</sup>	-	-	234,240
Roger Marshall	171,740	10,000 <sup>(3)</sup>	-	-	181,740
Peter Forbes	69,740	10,000 <sup>(3)</sup>	-	-	79,740
Chen Zeng	27,500	10,000 <sup>(3)</sup>	-	(7,000)	30,500
Martin Kriewaldt	15,680	11,323 <sup>(3)</sup>	-	-	27,003
Terry O'Reilly	247,984	17,500 <sup>(3)</sup>	-	-	265,484
Nicole Hollows	14,500	440	23,416	-	38,356
<b>EXECUTIVES</b>					
Gary Lee	3,682	-	8,898	-	12,580
Lisa Dalton	-	-	2,857	-	2,857
Graham Yerbury <sup>(1)</sup>	1,000	2,872	-	-	3,872
Rod Dyer <sup>(1)</sup>	-	-	-	-	-
Scott Croger <sup>(1)</sup>	-	-	-	-	-
Allan Fidock <sup>(1)</sup>	-	45	-	-	45
Michael Gray <sup>(1)</sup>	4,341	902	6,322	-	11,565
Peter Kane <sup>(1)</sup>	14,052	-	7,902	-	21,954

(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 12,500 shares granted as compensation being 5,000 shares relating to the second tranche of shares for the 2010 year and 7,500 shares for the first tranche of shares relating to the 2011 financial year.

(3) Includes 10,000 shares granted as compensation being 5,000 shares relating to the second tranche of shares for the 2010 year and 5,000 shares for the first tranche of shares relating to the 2011 financial year.

(4) Shares were granted to Key Management Personnel during the course of the year in accordance with the long term incentive plan. The shares relate to vested performance rights and are placed in trust until such time as the employees elect to have the shares transferred out of the trust. There were 49,395 shares purchased by the trust in 2011 (2010: nil).

Shares are granted to Directors in the current and prior year as application of Directors' fees as detailed in Note 3(l).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 37. RELATED PARTIES (CONTINUED)

#### MOVEMENTS IN SHARES (CONTINUED)

The movement during the previous year 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 2009	ACQUISITIONS	RECEIVED ON EXERCISE OF OPTIONS OR RIGHTS	DISPOSALS	HELD AT 30 JUNE 2010
<b>DIRECTORS</b>					
Keith DeLacy	304,240	17,500 <sup>(2)</sup>	-	100,000	221,740
Roger Marshall	154,240	17,500 <sup>(2)</sup>	-	-	171,740
Peter Forbes	52,240	17,500 <sup>(2)</sup>	-	-	69,740
Chen Zeng	10,000	17,500 <sup>(2)</sup>	-	-	27,500
Martin Kriewaldt	1,000	14,680 <sup>(3)</sup>	-	-	15,680
Terry O'Reilly	233,304	14,680 <sup>(3)</sup>	-	-	247,984
Nicole Hollows	14,500	-	-	-	14,500
<b>EXECUTIVES</b>					
Peter Kane	11,552	2,500	-	-	14,052
Gary Lee	3,682	-	-	-	3,682
Lisa Dalton	-	-	-	-	-
Michael Gray <sup>(1)</sup>	-	4,341	-	-	4,341
Shane Stephan <sup>(1)</sup>	5,682	-	-	-	5,682
Stuart Hatton <sup>(1)</sup>	-	-	-	-	-

(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 15,000 shares granted as compensation being 10,000 shares relating to the 2009 financial year and 5,000 shares for the first tranche of shares relating to the 2010 financial year.

(3) Includes 12,180 shares granted as compensation being 7,180 shares relating to the 2009 financial year and 5,000 shares for the first tranche of shares relating to the 2010 financial year.

#### NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

##### Identity of related parties

The Group has related party relationships with its subsidiaries (Note 33), joint ventures (Note 29), jointly controlled entities (Note 30), associated entities (Note 34) and its Key Management Personnel (refer disclosures of 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. Coal sales (pre-hedging) of \$107,854,000 were made to CITIC during the year (2010: \$72,073,000). These transactions were on an arms' length basis. At year end, there were no outstanding receivables from CITIC (2010: \$Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 37. RELATED PARTIES (CONTINUED)

#### ASSOCIATES

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 the Coppabella and Moorvale mine activities. Expenses totalling \$56,163,000 (2010: \$44,484,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and Coppabella and Moorvale Joint Venture during the year.

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 \$32,728,000 (2010: \$24,944,000)

were charged to Macarthur Coal (C&M Management) Pty Ltd and the 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 \$19,133,000 (2010: \$19,133,000) were charged to Macarthur Coal (C&M Management) Pty Ltd and the Coppabella and Moorvale Joint Venture during the year. The Group has a 73.3% interest in this joint venture.

The aggregate amounts receivable and payable by the Group from non-Director related parties are shown in Notes 16 and 22.

#### JOINTLY CONTROLLED ENTITIES

Custom Mining Pty Ltd, 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 \$109,682,000 were made during the year (2010: \$52,696,000). An additional amount of \$180,000 (2010: \$906,000) was advanced to Middlemount Coal Pty Ltd by the Company to fund other corporate costs.

The Company has a related entity payable to Monto Coal 2 Pty Ltd of \$23,944,000 (2010: \$29,518,000), which is payable to cover costs related to the development of stage 1 of the Monto Coal Joint Venture.

### 38. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2011 the parent company of the Group was Macarthur Coal Limited.

	COMPANY	
	2011 \$'000	2010 \$'000
<b>RESULT OF THE PARENT ENTITY</b>		
Profit for the period	137,433	125,182
Other comprehensive income	-	-
Total comprehensive income for the period	137,433	125,182
<b>FINANCIAL POSITION OF PARENT ENTITY AT YEAR END</b>		
Current assets	461,398	424,040
Total assets	2,036,403	1,065,997
Current liabilities	275,822	44,318
Total liabilities	692,008	277,710
Total equity of the parent entity comprising of:		
Share capital	1,253,923	713,420
Reserves	167	399
Retained earnings	90,305	74,468
<b>TOTAL EQUITY</b>	<b>1,344,395</b>	<b>788,287</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 30 June 2011

### 38. PARENT ENTITY DISCLOSURES (CONTINUED)

#### LITIGATION

Refer to Note 32 for details of litigation faced by the Company.

	COMPANY	
	2011 \$'000	2010 \$'000
<b>PARENT ENTITY COMMITMENTS FOR OPERATING LEASES</b>		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	3,173	2,867
Later than one year but not later than five years	8,680	6,601
Later than five years	-	1,088
	<b>11,853</b>	<b>10,556</b>

	COMPANY	
	2011 \$'000	2010 \$'000
<b>PARENT ENTITY COMMITMENTS ON BEHALF OF JOINT VENTURES</b>		
Commitments under the electricity, water, rail, and port agreements for joint ventures not provided for in the financial statements and payable:		
Not later than one year	42,468	32,437
Later than one year but not later than five years	154,099	175,270
Later than five years	141,043	276,478
	<b>337,610</b>	<b>484,185</b>

#### GUARANTEES

The Company has provided bank guarantees totalling \$333,000 (2010: \$422,000) in respect of the Company's Brisbane head office. These amounts are secured by bank deposits to the value of \$333,000 (2010: \$333,000) <sup>(1)</sup>

(1) These contingent liabilities are considered remote.

Refer to Note 32 for details of other guarantees provided by the Company.

### 39. SUBSEQUENT EVENTS

On 11 July 2011, Macarthur Coal Limited announced that it had received a non-binding indicative and conditional proposal from Peabody Energy Corporation and ArcelorMittal S.A. (together "PEAMCoal") under which, subject to due diligence and other matters, PEAMCoal would make a takeover bid for all of the issued shares in Macarthur.

On 1 August 2011, the Board of Macarthur advised that on completion of due diligence, PEAMCoal intended to make a conditional offer to acquire a controlling interest in Macarthur for a cash consideration of \$15.50 per share.

On 4 August 2011, Macarthur received a bidder's statement from PEAMCoal, containing the terms of a conditional proposal to bid for all of the issued ordinary shares in Macarthur at a price of \$15.50 per share. In response to a request from Macarthur, PEAMCoal agreed to make certain changes to the bidder's statement and issued a replacement bidder's statement on 15 August 2011.

Macarthur did not consider it in shareholders' interests to seek to delay the dispatch of the replacement bidder's statement and PEAMCoal dispatched its replacement bidder's statement to Macarthur shareholders on 18 August 2011. The PEAMCoal Offer opened on 18 August 2011 and remains open until at least 20 September 2011, although it may be extended.

Macarthur expects to dispatch its target's statement to shareholders by late August or early September 2011.

In light of the above developments, the Directors of Macarthur Coal Limited have resolved that the Dividend Reinvestment Plan will not operate for the 2011 final dividend.

Macarthur Coal

## 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 106 to 162, and the Remuneration Report in the Directors' Report set out on pages 84 to 102, are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its 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); and
  - c) 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 2011.

Dated at Brisbane this 23rd day of August 2011.

Signed in accordance with a resolution of the Directors:



**KEITH DELACY**

Chairman



## **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 consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 39 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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 of the financial report that gives a true and fair view 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 *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.





## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MACARTHUR COAL LIMITED (CONTINUED)

### INDEPENDENCE

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### AUDITOR'S OPINION

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

### REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in section 5 of the directors' report for the year ended 30 June 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

**KPMG**

**ROBERT S JONES**

Partner

Brisbane  
23 August 2011

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

## SHAREHOLDER INFORMATION

**COMPANY:** Macarthur Coal Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

**ABN:** 40 096 001 955

**STOCK EXCHANGE:** Macarthur Coal is listed on the Australian Securities Exchange (ASX). The Home Exchange is Brisbane.

**ASX CODE:** Ordinary shares: MCC

**OFFICER:** Company Secretary: Lisa Dalton

### CONTACT DETAILS:

**Registered Office:** 100 Melbourne Street, South Brisbane, Qld 4101

**Postal Address:** GPO Box 1025, Brisbane, Qld 4001

**Phone:** 07 3221 7210

**Fax:** 07 3229 1776

**Email:** info@macarthurcoal.com.au

**Web site:** www.macarthurcoal.com.au

**Write to:** Macarthur Coal Limited, GPO Box 1025, Brisbane, Qld 4001

Additional copies of this report can be obtained by contacting the GM Stakeholder Relations on the contact details above. An electronic copy is also available on the web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au).

### SHARE REGISTRY:

Computershare Limited maintains Macarthur Coal's share registry. Contact details:

**Registered Office:** 117 Victoria Street, West End, Qld 4101

**Postal Address:** GPO Box 523, Brisbane, Qld 4001

**Phone:** 1300 552 270 (within Australia) or 61 7 3237 2100 (outside Australia)

**Fax:** 07 3229 9860

**Web site:** www-au.computershare.com

### CALENDAR OF EVENTS

24 August 2011	Full Year 2011 Results lodged with ASX
26 October 2011	September 2011 Quarterly Report lodged with ASX
2 November 2011	Annual General Meeting, 1.30pm, Brisbane Convention and Exhibition Centre
25 January 2012	December 2011 Quarterly Report lodged with ASX
22 February 2012	Half Year 2012 Results lodged with ASX
24 April 2012	March 2012 Quarterly Report lodged with ASX
25 July 2012	June 2012 Quarterly Report lodged with ASX
22 August 2012	Full Year 2012 Results lodged with ASX
24 October 2012	September 2012 Quarterly Report lodged with ASX

### ADDITIONAL SHAREHOLDER INFORMATION

Additional shareholder information required by the ASX Listing Rules and not disclosed elsewhere in this report is outlined below.

### CONTINUOUS DISCLOSURE

All documents lodged with the ASX since 2004 (including all quarterly, half yearly and annual reports) are provided on the Macarthur Coal web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au) under 'Corporate and Investor'. A link to the ASX provides shareholders with access to all historical announcements made since the Company listed in July 2001. The web site also details the Company's mining interests and project portfolio, share price and share registry details, details of senior executives and Directors, general meeting information, resolution results and corporate governance policies.

### DIVIDEND POLICY

The Macarthur Coal Dividend Policy is to pay approximately 50% of net profit after tax as a dividend.

### DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan (DRP) provides Macarthur Coal shareholders with the opportunity to use their dividends to acquire additional shares in Macarthur Coal without incurring brokerage or transaction fees. Participation in the DRP is voluntary. Shareholders who choose to participate have

the choice of full or partial participation. Shareholders are able to vary their level of participation or cancel at any time.

Shareholders with registered addresses in Australia and New Zealand may participate. Participation by other shareholders, however, is conditional on the laws enacted where shareholders reside. The DRP rules are available on the web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au). The Directors have resolved to suspend the operation of the DRP for the 2011 final 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 the web site [www.macarthurcoal.com.au](http://www.macarthurcoal.com.au).

### SHAREHOLDER FORMS

Shareholder forms are available directly from Computershare and are on the Computershare web site at <https://www-au.computershare.com/Investor/FormsCatalogue.asp>. All forms should be submitted directly to Computershare.

## SHAREHOLDER INFORMATION CONTINUED

### SHAREHOLDER FEEDBACK

Feedback or comments with respect to shareholder communications are welcome. Please direct any comments or requests for further information to the GM Stakeholder Relations.

### SHAREHOLDER STATISTICS

As at 17 August 2011, Macarthur Coal has more than 8,800 shareholders and a total of 302,092,343 ordinary fully paid shares on issue.

### VOTING RIGHTS

Macarthur Coal fully paid ordinary shares carry voting rights of one vote per share.

### SUBSTANTIAL SHAREHOLDERS AS AT 17 AUGUST 2011

Substantial shareholders are set out below:

NAME	PERCENTAGE
CITIC Group	25.20%
ArcelorMittal S.A. and Peabody Energy Corporation	16.07%
UBS AG	9.45%
POSCO	7.02%

### TOTAL SHAREHOLDER RETURNS - 5 JULY 2001 TO 30 JUNE 2011



**Top performer for the decade:** Shareholders who invested on 5 July 2001 would have received a total shareholder return of 1,068% on 30 June 2011, ranking Macarthur Coal second in the ASX 300 for the time period. Source: Orient Capital.

### DISTRIBUTION OF SHAREHOLDERS AND THEIR HOLDINGS AS AT 17 AUGUST 2011

SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES
1-1,000	4,571	1,940,425
1,001 – 5,000	3,302	8,067,785
5,001 – 10,000	599	4,318,056
10,001 – 100,000	311	6,210,658
100,001 and over	42	281,555,419
Total	8,825	302,092,343

The number of shareholders holding less than a marketable parcel of ordinary shares is 567. There is no current on-market buy-back.

### TOP 20 SHAREHOLDERS AS AT 17 AUGUST 2011

	NAME	PERCENTAGE	NUMBER OF SHARES
1	CITIC GROUP	25.20	76,123,583
2	ARCELOMITTAL NETHERLANDS BV	16.07	48,552,062
3	NATIONAL NOMINEES LIMITED	11.74	35,462,443
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9.74	29,413,042
5	JP MORGAN NOMINEES AUSTRALIA LIMITED - CASH INCOME A/C	8.23	24,857,050
6	POSCO	7.02	21,215,700
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	4.17	12,599,141
8	CITICORP NOMINEES PTY LIMITED	3.72	11,250,446
9	CREDIT SUISSE SECURITIES (EUROPE) LTD - COLLATERAL A/C	1.47	4,440,000
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - GSCO ECA	1.14	3,451,227
11	WOODROSS NOMINEES PTY LTD	0.98	2,965,873
12	BRISPTOT NOMINEES PTY LTD - HOUSE HEAD NOMINEE NO 1 A/C	0.44	1,336,842
13	COGENT NOMINEES PTY LIMITED	0.38	1,146,527
14	BUTTONWOOD NOMINEES PTY LTD	0.36	1,098,787
15	SHARE DIRECT NOMINEES PTY LTD - 10026 A/C	0.22	679,032
16	WARBONT NOMINEES PTY LTD - SETTLEMENT ENTREPOT A/C	0.22	672,725
17	AMP LIFE LIMITED	0.21	624,118
18	QUEENSLAND INVESTMENT CORPORATION	0.18	547,081
19	AUSTRALIAN REWARD INVESTMENT ALLIANCE	0.17	510,208
20	PERPETUAL TRUSTEE COMPANY LIMITED	0.15	461,500

## GLOSSARY

<b>\$M</b> Million dollars	<b>FOB</b> Free on Board	<b>MLA</b> Mining lease application
<b>AICD</b> Associate of the Australian Institute of Company Directors	<b>FOR</b> Free on Rail	<b>NPAT</b> Net profit after tax
<b>APCT</b> Abbot Point Coal Terminal	<b>force majeure</b> is a common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, such as an event, described by the legal term “act of God” (ie flooding, earthquake, cyclone, volcanic eruption), which prevents one or both parties from fulfilling their obligations under the contract	<b>NRC</b> Nomination and Remuneration Committee
<b>ARMC</b> Audit and Risk Management Committee	<b>FY</b> Financial year	<b>Open-cut mine</b> A mine worked at and from the surface
<b>ASX</b> Australian Securities Exchange, formerly the Australian Stock Exchange	<b>Geological modelling</b> The recording of physical characteristics of different rock types from boreholes	<b>Overburden</b> Material which overlies a deposit of useful material
<b>AUD</b> Australian dollar. The currency for the Commonwealth of Australia	<b>Hedging</b> A process to protect against or reduce a risk	<b>PCI</b> Pulverised coal injection
<b>bcm</b> A cubic metre of rock or material in situ before it is extracted	<b>Indicated Resource</b> 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	<b>Pig iron</b> Raw iron produced from blast furnaces
<b>Bowen Basin</b> The principal coal mining area in Queensland	<b>Inferred Resource</b> That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a reasonable level of confidence	<b>ROM</b> Run of mine
<b>CHPP</b> Coal handling and preparation plant	<b>JORC Code</b> A code prepared by the Joint Ore Reserve Committee which defines criteria for publicly reporting resources and reserves	<b>Reserves</b> The economically mineable part of Measured or Indicated Coal Resource at the time of reporting as defined in the JORC Code
<b>CO<sub>2</sub>-e</b> Carbon dioxide equivalent	<b>kV</b> Kilovolt - a unit of potential equal to a thousand volts	<b>Resources</b> The part of the coal deposit for which there is a reasonable prospect for eventual economic extraction as defined in the JORC Code
<b>Coking Coal</b> Coal which is suitable for making coke	<b>Low volatile coal</b> Coal with less than 17% volatile matter	<b>Royalties</b> State Government charges for the mining of coal
<b>Corporate governance</b> The system by which companies are directed and managed	<b>LTIFR</b> Lost time injury frequency rate	<b>SPC</b> Special Projects Committee
<b>CMJV</b> Coppabella and Moorvale Joint Venture	<b>LV PCI Coal</b> Low volatile pulverised coal injection coal	<b>Strip ratio</b> The proportion of overburden volume that is required to be removed to mine a certain tonnage of coal
<b>Crude steel</b> Unrefined steel	<b>MCC</b> The ASX Code for Macarthur Coal Limited (ABN 40 096 001 955). Macarthur Coal Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares	<b>Tenement</b> A mining lease, exploration permit, or mineral development licence
<b>DBCT</b> Dalrymple Bay Coal Terminal	<b>Measured Resource</b> 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	<b>Thermal coal</b> Coal which is combusted to provide heat for steam generation and subsequent power generation
<b>DERM</b> Department of Environment and Resource Management	<b>Metallurgical coal</b> Coal used in the production of steel	<b>tph</b> tonnes per hour
<b>Dividend</b> Payment from the Company’s profits to its shareholders	<b>Mt</b> Million tonnes	<b>TRIFR</b> Total recordable injury frequency rate
<b>Dragline</b> A large earthmoving machine with a bucket suspended by cables from a crane-like boom	<b>Mtpa</b> Million tonnes per annum	<b>TSR</b> Total shareholder return
<b>EA</b> Environmental Authority		<b>Unincorporated Joint Venture</b> 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
<b>EBIT</b> Earnings before interest and tax		<b>WICET</b> Wiggins Island Coal Export Terminal
<b>EBITDA</b> Earnings before interest, tax, depreciation and amortisation		
<b>EIS</b> Environmental Impact Statement		
<b>EPC</b> Exploration permit for coal		





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