MACARTHUR COAL LIMITED

# ANNUAL REPORT / 2010 / AGILITY IN A GLOBAL MARKET

# VISION

An independent, growth focused coal company delivering long-term shareholder value

# STRATEGIC OBJECTIVES

Sustainable Growth and Operational Excellence

# MISSION

To grow total shareholder value by:

- Optimising operations and managing risk
- Responding quickly to cost effective opportunities to expand production and markets
- Identifying and developing competitive assets
- Forging long-term, mutually rewarding relationships with customers, suppliers, regulators, employees, the community and shareholders

# VALUES

Value people

Work together

Lead the way

Talk straight

- All sales and production statistics in this Annual Report represent Macarthur Coal's 73.3% attributable share unless otherwise stated.
- All years relate to financial years unless otherwise stated.
- All dollar amounts are Australian dollars unless otherwise stated.
- Macarthur Coal is referred to as the Company, Macarthur Coal and Macarthur.

| PERFORMANCE SUMMARY | | 2010 | 2009 | Variance % |
|---|---|---|---|---|
| Revenue from coal sales | $M | 670.5 | 695.4 | (4)% |
| EBITDA | $M | 213.1 | 281.4 | (24)% |
| EBIT | $M | 181.8 | 260.2 | (30)% |
| Net profit after tax (NPAT) | $M | 125.1 | 168.6 | (26)% |
| Earnings per share | cents | 49.3 | 79.3 | (38)% |
| Dividends per share | cents | 25.0 | 13.0 | 92% |
| Gearing (net debt/shareholders' equity) | % | (22.0) | (15.8) | 39% |
| Net interest cover (EBITDA/interest paid) | times | 25.0 | 41.0 | (39)% |
| Return on Invested Capital | % | 10.7 | 16.2 | (34)% |
| Net Tangible Assets per share | $/share | 4.3 | 4.0 | 8% |

# HIGHLIGHTS

- Revenue of $670.5 million
- Net profit after tax (NPAT) of $125.1 million
- Shipped 5.3Mt (million tonnes) of coal, above target of 4.8-5.0Mt
- Achieved combined TRIFR of 17.5 for Coppabella and Moorvale, well below target of 21
- Commenced rail haulage contract with Pacific National for up to 3.7Mt, matching increased port capacity at Dalrymple Bay Coal Terminal
- Mining lease granted for Middlemount Mine and 3.0Mt per annum matching rail and port access secured at expanded Abbot Point coal terminal

# CHALLENGES

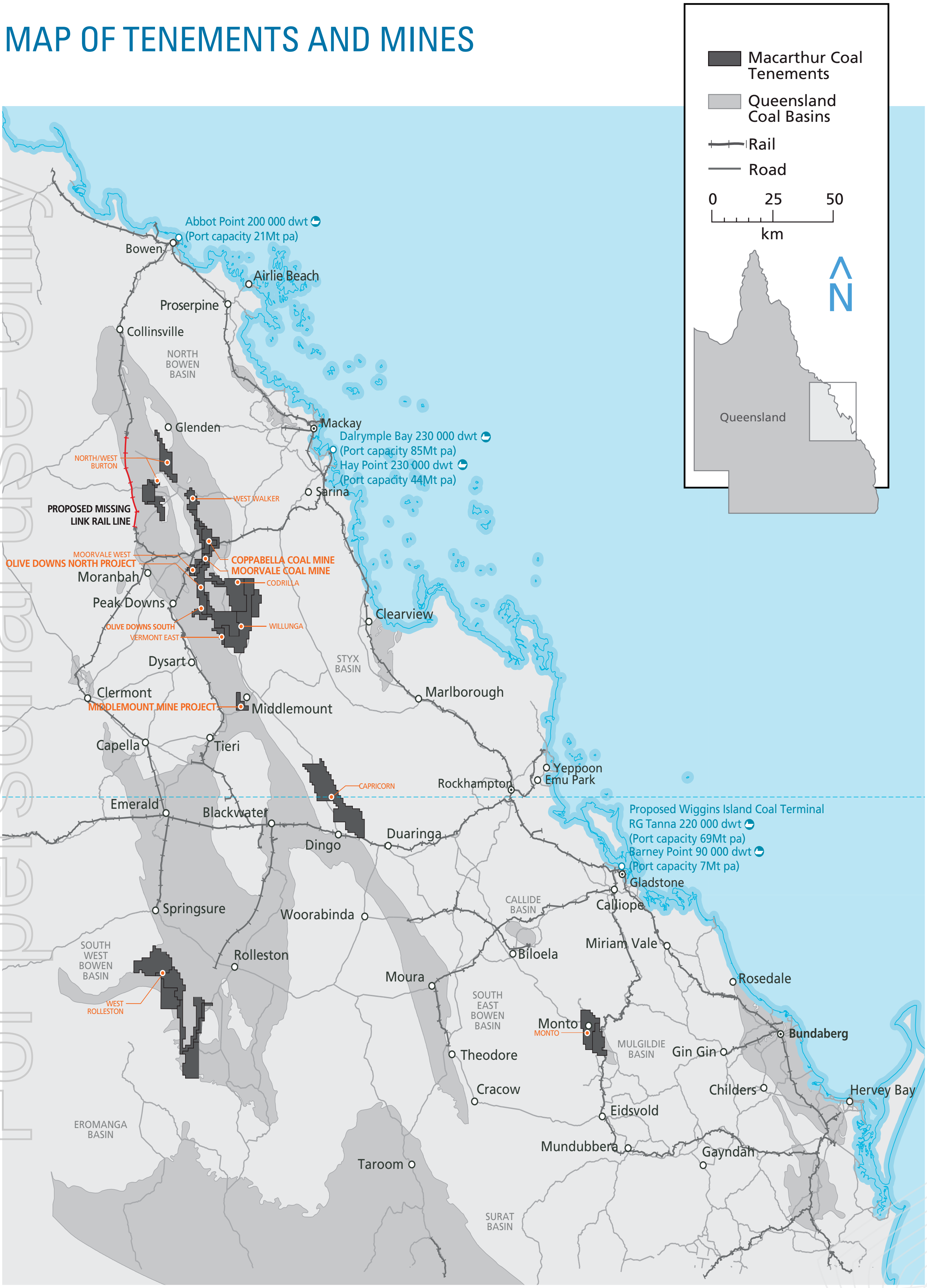
- Returning to full production in response to recovery in customers' coal demand
- Renewed coal system congestion with resulting increase in demurrage costs for the Company
- Managing a planned merger and the Company's defence against unsolicited takeover offers
- Implementing new DERM water management regulations introduced in December 2009

# CONTENTS



# 1 OVERVIEW

# MAP OF TENEMENTS AND MINES



# PROFILE

## THE COMPANY

Macarthur Coal Limited (the Company) is a public company that listed on the Australian Stock Exchange (ASX) in July 2001. The ASX code is MCC. The principal activities of the Group are exploration, project evaluation, project development and coal mining activities in Queensland's Bowen Basin. Coal sales and marketing are undertaken globally. As at 19 August, 2010 the Company had a market capitalisation of A$3.28 billion. The Company's coal mines and tenements are listed on Macarthur Coal's Assets Table on page 170.

## LOCATION

Macarthur Coal is based in Queensland with mining assets in the Bowen Basin and a corporate office located in the state's capital, Brisbane.

## MARKET POSITION

Macarthur Coal's principal product is low volatile pulverised coal injection (LV PCI) coal used in the production of steel. This product is mined at the Coppabella and Moorvale mines.

Macarthur Coal is the world's largest supplier of seaborne LV PCI coal to steel mills in Asia, Europe and Brazil. The Company also produces thermal and coking coal.

For detailed information on the Product Life Cycle see page 9.

## BUSINESS OVERVIEW

Macarthur Coal provides the expertise to manage the mines and an exploration programme on behalf of a number of joint venture participants. Macarthur Coal manages all mining operations at Coppabella Mine. Contractors are engaged to undertake mining operations at Moorvale Mine.

All production and sales at Coppabella and Moorvale mines are managed by Macarthur Coal and the Company is entitled to 73.3% of the proceeds from the sale of the coal produced at the two mines. All sales and production statistics in this Annual Report represent Macarthur Coal's 73.3% attributable share unless otherwise stated. For further information on the Company's performance at its mines please see Operations on page 19.

## BUSINESS STRUCTURE

Macarthur Coal's major assets are:

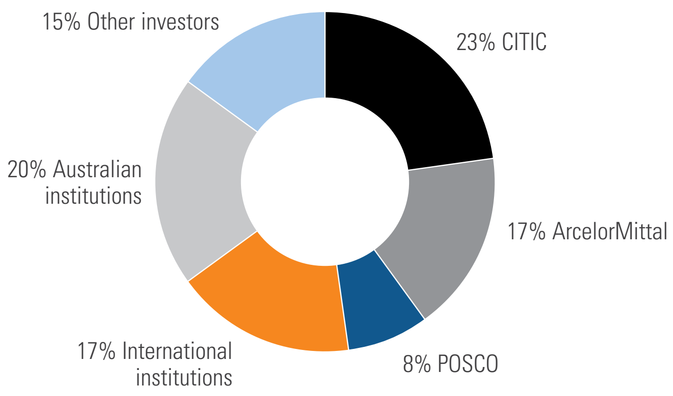
- a 73.3% share in Coppabella Mine and Moorvale Mine through the Coppabella and Moorvale Joint Venture (CMJV) which together provide approximately one third of the total volume of LV PCI coal exported from Australia
- a 72.48% share of the Middlemount Mine project.

Macarthur Coal's mines and exploration tenements (excluding the Middlemount Mine project) are held within unincorporated joint ventures. This structure has allowed the Company to gain significant strategic benefits by involving other parties in its projects. The Company's production joint venture participants are CITIC Resources Australia Pty Ltd, Marubeni Corporation, Sojitz Corporation, JFE Shoji Trade Corporation and NS Trading Co Ltd.

The Middlemount Mine project is an incorporated joint venture with Paway Ltd (part of the Noble Group Ltd). Paway Ltd holds the remaining 27.52% of the Middlemount Mine project. For more detail on Growth see page 30.



## SHAREHOLDERS




## CUSTOMERS

Macarthur Coal's traditional customer base comprises major world steel producers which use the LV PCI product in the production of steel. More information on this can be found on pages 9, 28 and 29.

## SHAREHOLDERS

Macarthur Coal has 254,333,109 shares on issue and more than 12,500 shareholders. The top three shareholders are CITIC, ArcelorMittal and POSCO. The remaining shareholder base is made up of international (17%) and Australian (20%) institutions and retail and other investors (15%). For further shareholder information see page 168.

## PEOPLE

The Company's people underpin its achievements. Macarthur Coal employs around 345 people directly and more than 570 people through contractors. Valuing the input of all employees and contract staff ensures future success and growth and will position Macarthur as a leader within the sector. To that end, Macarthur Coal places significant emphasis on workplace health and safety and the training and development of its employees. For more information on this see pages 46 to 51.

## COMMUNITY

Macarthur Coal is dedicated to giving back to the communities that host its operations. For a summary of current initiatives see page 54.

## ENVIRONMENT

Macarthur Coal is conscious of its environmental footprint as well as how it can minimise the Company's environmental impact. Macarthur Coal recognises increasing community expectations and is committed to meeting these expectations by ensuring it is proactive in its approach to environmental management and complies with regulatory obligations and standards. For more information see page 56.

## FUTURE

The Company has plans for a sustainable future and aims to double its 2009 production to achieve sales of 9.2mtpa by 2014 through the development of the Middlemount Mine project and one other mine from the Company's tenement portfolio. The Company's extensive tenement portfolio provides multiple opportunities to develop new coal mines. For more in depth information see pages 30 to 42.

Macarthur Coal's long-term sustainable growth will be achieved through continuing to evaluate its tenement portfolio to deliver organic growth and through potential acquisitions. For more information on the business strategy see page 5.

# STRATEGY

## MACARTHUR COAL'S VISION IS TO BE AN INDEPENDENT GROWTH FOCUSED COAL COMPANY DELIVERING LONG-TERM SHAREHOLDER VALUE

Macarthur Coal is a Queensland success story. Listed in 2001, it is now the world's largest producer of seaborne LV PCI coal. The Company's focus is on high margin or low cost coal assets with a strong market demand and product diversification capability.

The Company's goal is to double 2009 production to achieve sales of 9.2mtpa by 2014. To achieve this, Macarthur Coal will focus on two strategic objectives - operational excellence and sustainable growth.

## DOUBLING 2009 PRODUCTION TO ACHIEVE SALES OF 9.2MTPA BY 2014

### OPERATIONAL EXCELLENCE

Operational Excellence will be achieved by managing the Company's assets in the most effective and efficient way.
This will be done by:

- Continually improving safety performance across all sites
- Respecting the environment
- Achieving production and sales targets
- Focusing on and managing costs
- Attracting and retaining high quality people

### SUSTAINABLE GROWTH

Sustainable Growth will be achieved by ensuring the business has sufficient resources to underpin growth. This will be done by:

- Focusing on continued exploration of the tenement portfolio to increase resources
- Assessing expansion opportunities for existing assets
- Developing operating assets from the tenement portfolio
- Assessing potential acquisitions that support sustainable growth
- Increasing the customer base and focusing on value adding propositions for customers
- Investing in learning and development to build talent

# PERFORMANCE SUMMARY



| STRATEGIC OBJECTIVE | STRATEGIC DRIVERS | 2010 PERFORMANCE | | |
|---|---|---|---|---|
| | | 2010 Targets | 2010 Performance | 2010 Achievements, Initiatives and Challenges |
| OPERATIONAL EXCELLENCE | Safety | Total Recordable Injury Frequency Rate (TRIFR) <21 (overall) | ◆ | TRIFR = 17.9 (overall)<br>Coppabella Mine recorded its lowest ever TRIFR and lowest LTIFR since 2002 |
| | Environment | No major environmental non-conformances | ◇ | No major environmental non conformances, however two Penalty Infringement Notices (PINs) received during the year. One each for Coppabella and Moorvale mines. Refer to page 56 for further details and action plans to mitigate future PINs |
| | | Completion and evaluation of 50 hectares of rehabilitation at Coppabella and Moorvale mines | ◆ | 58 hectares of rehabilitation completed and evaluated |
| | People | Annual reduction in employee turnover | ◆ | Employee turnover reduced from 30% to 8.5%<br>See page 48 for further detail |
| | Production and Sales | 6.0Mt coal mined (ROM) | ◆ | 6.4Mt coal mined (ROM) |
| | | 4.6Mt coal sold | ◆ | 5.3Mt coal sold (including purchased coal) |
| | | Minimal non-moisture penalties | ◆ | Non-moisture penalties below target |
| | Carbon | Carbon pollution reduction abatement strategies implemented | ◇ | Abatement strategy complete and initiatives implemented. Energy Management Policy developed. Refer to page 59 |
| | Cost Management | Fully functional, timely cost reporting system in place for Coppabella and Moorvale mines | ◇ | The business went live with a business-wide Enterprise Resource Planning (ERP) system in November 2009 which has improved reporting |
| | | Owner Operator Free on Rail (FOR) costs in 2010 reduced from those recorded in 2009 | ◆ | FOR costs increased by 5% per tonne as a result of investment in repairs and maintenance of mining equipment |
| SUSTAINABLE GROWTH | Development of Middlemount | Middlemount CHPP constructed | ← | Construction of Middlemount CHPP is due for practical completion during the September quarter of 2010 |
| | Exploration of tenement portfolio | Exploration and evaluation spend of $15.3 million | ◆ | $11.1 million spent on exploration and evaluation<br>Middlemount resource increased by 22% |
| | Advancing tenements from the portfolio | Codrilla feasibility study completed | ← | Aspects of the feasibility study have been completed including Environmental Impact Statement (EIS) environmental baseline and modelling, infrastructure design, mine planning and CHPP design evaluation.<br>The EIS commenced in July 2009 and will be released for public comment by October 2010 |
| | Sustainable Culture | Second culture audit in December 2009 to assess Company performance. The aim is to develop a constructive culture which reflects a healthy balance of people and task-related concerns | ◇ | A second culture audit was conducted in November 2009 resulting in a slight increase in overall staff satisfaction |
| | | Two Working Together programmes | ◇ | Two Working Together programmes were held during the year enhancing communication between the corporate office in Brisbane and the minesites. 29 people attended these sessions which focused on team building initiatives |
| | Building Talent | 100% training and development plans in place for all employees | ◇ | All employees had training and development plans in place for the 2010 financial year |
| | | 75% training and development plans completed for all employees | ◇ | 71% of employees completed their training and development as planned. The ability of some employees to take time out for training and development was impacted by the corporate activity in the second half of the year |

◆ Target Exceeded ◇ Target Achieved (≥90%) ◆ Target Not Achieved ← Behind Schedule

| 2011 TARGETS |
| --- |
| 2011 Targets for completion by 30 June 2011 (unless otherwise stated) |
| TRIFR <20.2 (overall) |
| No major environmental non-conformances<br>Complete water management infrastructure at sites |
| Completion and evaluation of 65 hectares of rehabilitation |
| Turnover to be 15% or less |
| 6.8Mt coal mined (ROM) |
| 5.0Mt coal sold |
| Minimal non-moisture penalties<br>Maximise metallurgical coal sales |
| Progress carbon emission reduction initiatives in accordance with plans<br>Implement Energy Management Policy principles and objectives |
| Conduct a Business System Improvement project to improve systems and maximise benefits from the ERP<br>Roll out a new Knowledge Management System for the business |
| Overburden mining costs ($/bcm) at Coppabella Mine lower than 2010<br>Mining costs at Moorvale Mine to be 2011 budgeted costs or lower |
| Commence production at Middlemount Mine<br>Commence construction of rail loop and installation of stand alone water connection and power supply.<br>Secure EIS approval to increase production up to a maximum of 5.4mtpa ROM at Middlemount Mine |
| $18.8 million of exploration and evaluation expenditure<br>Increase and improve JORC status of Resources and Reserves |
| Submit the Codrilla EIS for public comment by October 2010<br>Complete the feasibility study for Codrilla by December 2010<br>Complete the pre-feasibility study for Willunga by December 2010<br>Complete concept study for West Rolleston by June 2011 |
| Third culture audit to be conducted in December 2010 demonstrating an improvement on the 2009 staff satisfaction results |
| Two Working Together programmes to be held in 2011 to ensure positive communication and interaction between corporate office and minesite<br>Attendee satisfaction rating of at least 85% |
| 100% training and development plans in place for all employees |
| 75% training and development plans completed for all employees |

## AGILE / FOCUSED / INNOVATIVE

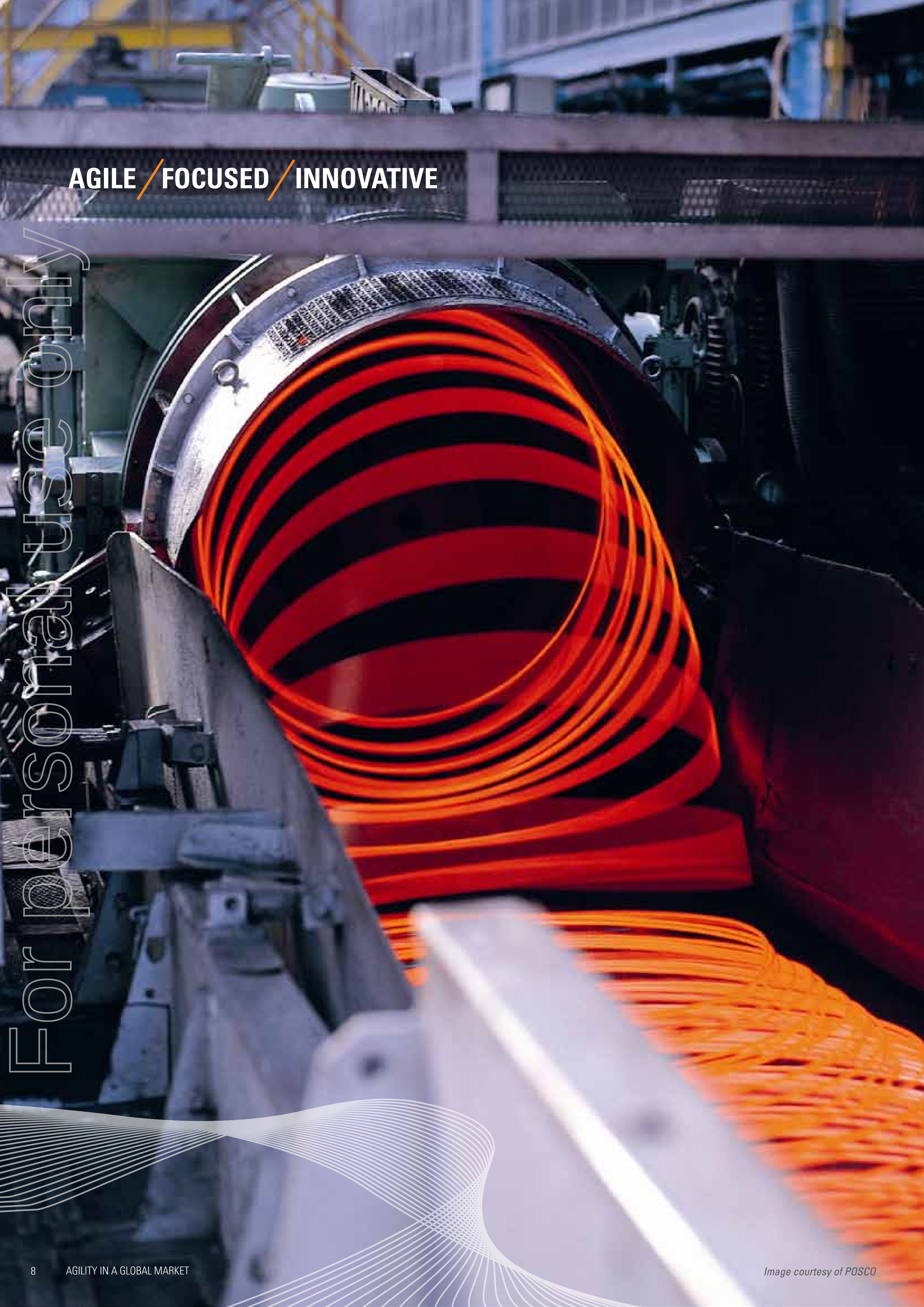


*Image courtesy of POSCO*

# COAL AND THE PRODUCT LIFE CYCLE

COAL HAS MANY IMPORTANT USES WORLDWIDE. THE MOST SIGNIFICANT USES ARE IN ELECTRICITY GENERATION, STEEL PRODUCTION AND CEMENT MANUFACTURING. THERE ARE TWO PRIMARY TYPES OF BLACK COAL PRODUCED – METALLURGICAL AND THERMAL. METALLURGICAL COAL IS USED IN THE PRODUCTION OF IRON AND STEEL, AND THERMAL COAL IS USED FOR POWER GENERATION.

Macarthur Coal's customers are mostly comprised of steel producers. Steel is an essential material for modern life and the demand for Macarthur's products is closely linked to global steel demand. The manufacture of steel delivers the goods and services that society needs – housing and general construction, healthcare, telecommunications, agriculture, transport, clean water and access to reliable and affordable energy.

Global steel production is dependent on metallurgical coal – or coking coal. Coking coal is used to create coke which is a key ingredient in the production of steel.

## STEEL MAKING

During the steel making process, a blast furnace is fed with iron ore, coke and small quantities of fluxes (minerals, such as limestone, which are used to collect impurities). Air, which is heated to about 1200°C, is blown into the furnace through nozzles in the lower section. The air causes the coke to burn, producing carbon monoxide which reacts with the iron ore, as well as heat to melt the iron. Finally, the tap hole at the bottom of the furnace is opened and molten iron and slag (impurities) are drained off. The molten iron is then refined into a variety of steel products.

## PULVERISED COAL INJECTION (PCI) COAL

Coal can be used in two ways in the production of steel. Coking coal is used to make the coke that is placed directly in the blast furnace along with the iron ore and other ingredients. Non-coking PCI coal is crushed and injected into the blast furnace. PCI coal provides further carbon (over that derived solely from the coke) for iron-making. As a result of the extra carbon introduced by PCI coal, steel makers can reduce the amount of coke necessary for steel making.

PCI coals range from low volatile to high volatile. Low volatile PCI (LV PCI) coal is increasingly sought by steel mills in preference to higher volatile coal because it provides superior performance in the blast furnace due to its higher carbon and energy content.

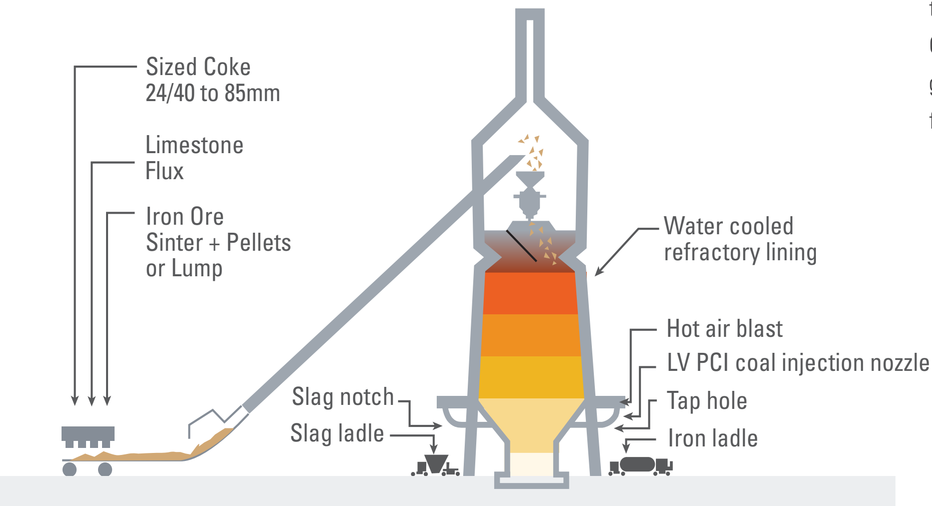
The replacement ratio of LV PCI coal to coke varies according to the requirements of each blast furnace. Typically, 1.0 tonne of LV PCI coal can replace 1.3 tonnes of more expensive coking coal. Consequently, LV PCI coal has proven to be effective in lowering the cost of steel making and has established a niche in the market for metallurgical coal.

## MACARTHUR'S POSITION IN THE COAL MARKET

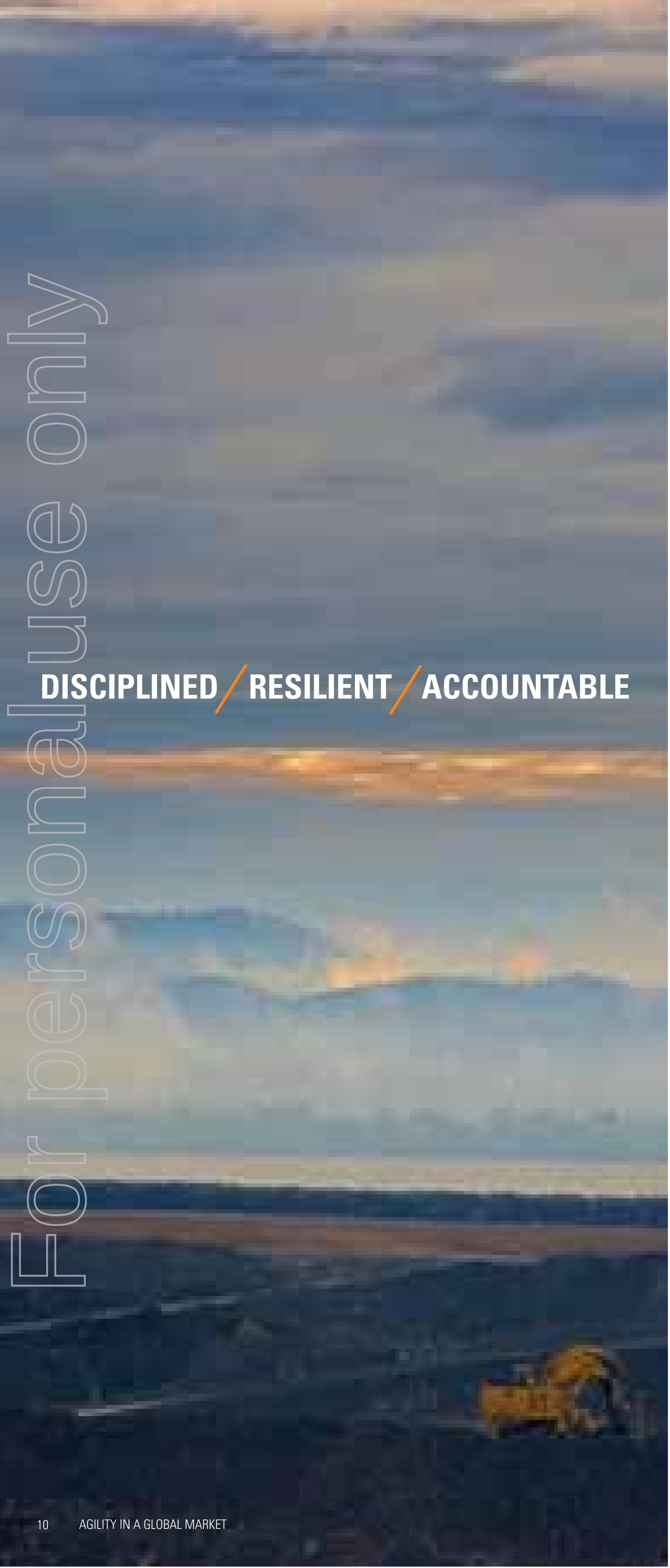
Macarthur has developed the Coppabella brand PCI coal that is established as the benchmark low volatile PCI coal in the international seaborne market. Production and sales from the Coppabella and Moorvale mines account for approximately 30% of the global seaborne market for LV PCI coal.

Macarthur holds sales contracts with the majority of the largest steel producers in the world including ArcelorMittal, Nippon Steel, JFE, Posco and Tata/Corus. Macarthur Coal has a tenement portfolio of potential growth projects in Queensland in response to the strong projected growth for metallurgical and thermal coal. For further detail see the Growth section on page 30.

## BLAST FURNACE PROCESS




*Source: World Coal Institute*






# CHAIRMAN'S REPORT

2010 HAS BEEN ANOTHER YEAR OF CHALLENGES FOR MACARTHUR COAL. I AM PLEASED TO REPORT THAT THE COMPANY DEMONSTRATED ITS ABILITY TO RESPOND RAPIDLY TO CHANGING MARKET CONDITIONS AND HAS ENJOYED A RETURN TO GROWTH THAT WILL BENEFIT YOU, OUR SHAREHOLDERS.

As the global economic recovery continued in 2010, Macarthur Coal benefited from a corresponding increase in demand for our low volatile PCI (LV PCI) coal product. Our traditional customers returned to shipping contracted volumes and we have cemented relationships with customers in new markets that were established during the global financial crisis. In response, Coppabella and Moorvale mines returned to full production during the course of the year.

## FULL YEAR DIVIDEND

The Company declared a total dividend of 25 cents per share for 2010, comprising an interim (8 cents per share) and final (17 cents per share) dividend.

This is a welcome return to the Company's longstanding policy of paying our loyal shareholders 50% of net profits after tax, after the Board decided not to pay an interim dividend in the 2009 financial year because of the impact of the economic downturn.

## CORPORATE ACTIVITY

Macarthur Coal was involved in a number of corporate proposals in 2010, beginning with our own proposal in December 2009 to combine certain interests of Macarthur Coal, the Noble Group and Gloucester Coal. The Board recommended this transaction to Macarthur shareholders because it would have created Australia's leading independent coal producer with greater diversity of products, mines and infrastructure.

Prior to finalising the Macarthur Coal, Noble Group and Gloucester Coal transaction, the Company was the subject of four takeover proposals from Peabody Energy Corporation and two from New Hope Corporation Limited. The Macarthur Board assessed the merits of each of these proposals and was unable to recommend proposals from either company be taken to Macarthur shareholders because of the valuations being offered and conditions attached to these approaches.

Ideally the Company would have liked to run the Gloucester Coal and Middlemount transactions in parallel to the proposals for the change of control of the Company. However, the shareholders of Noble decided not to approve the Middlemount transaction and this, combined with the corporate activity, meant the transaction we proposed eventually became unworkable.

Ultimately, Macarthur remains an independent company committed to growth in shareholder value. We floated in June 2001 with a market value of $129 million and we ended the 2010 financial year with a market capitalisation of $3.08 billion. Total Shareholder Return for the last year has been 88% compared to 13% for the ASX top 200 companies.

Our operational focus remains on doubling sales to 9.2 million tonnes per annum by 2014. We will continue to look at expansion opportunities beyond our organic growth plans, providing that they add value for the Company and for shareholders.

## MINERALS RESOURCE RENT TAX

In the Federal Budget in May 2010, the Commonwealth Government announced its intention to introduce a so-called Resource Super Profits Tax (RSPT). This tax would have had a dramatic impact on shareholder returns and investment in future growth for Macarthur Coal and all resource companies in Australia.

Macarthur Coal joined the rest of the resources industry to highlight the negative impacts of the proposed tax on companies, shareholders and employees. In July 2010, the Government amended its proposal, replacing the RSPT with a Minerals Resource Rent Tax (MRRT). The MRRT proposal is something that can more easily be accommodated by Macarthur Coal, whereas the RSPT would have had a devastating effect on the resources industry and greatly reduced its ability to compete internationally.

Macarthur Coal currently pays an effective tax rate (company tax plus State royalties) of approximately 43% of profits. On current indications, the MRRT will add no more than two percentage points to the effective tax rate depending on the price of coal, compared with the RSPT which could have increased our tax contribution to up to 60%.

We will continue to watch the MRRT proposal closely as it progresses. I hope that by the time this report is published, this issue has been resolved in such a way that the Australian people receive a fair return on their resources, whilst allowing this great industry to grow. This will mean the industry can continue delivering economic benefits to all Australians and that Macarthur Coal can pay increasing dividends to you, the shareholders.

## SUSTAINABLE GROWTH

We have progressed development of Middlemount Mine (part owned by the Noble Group) and continued our commitment to exploration and evaluation activities.

We are taking a proactive approach to developing our coal resources in a sustainable manner that maximises social and economic benefits. We are working to understand our own carbon footprint and identify abatement opportunities. We have also progressed our sustainability strategy and begun implementing these processes across the operations.

## KEN TALBOT

All of us who have been a part of Macarthur Coal were deeply saddened to hear of the death of Ken Talbot on Saturday 19 June 2010. Ken started the Company in 1997. It was his vision and energy that created Macarthur Coal and many of his friends still work with the Company. He personally recruited me as Chairman in 2001 in preparation for the public listing. Ken and I remained close friends even after he left the Company in 2008 and I am proud to have served on the Board of Macarthur Coal with him.

His entrepreneurial spirit will leave a lasting legacy for the Company, the mining industry and the Australian community. Ken made a habit of taking time after the Annual General Meeting each year to meet and talk with shareholders, and I am sure those of you who met him will share our sympathies for Ken's family.

Keith De Lacy
Chairman

## BUILDING OUR FUTURE

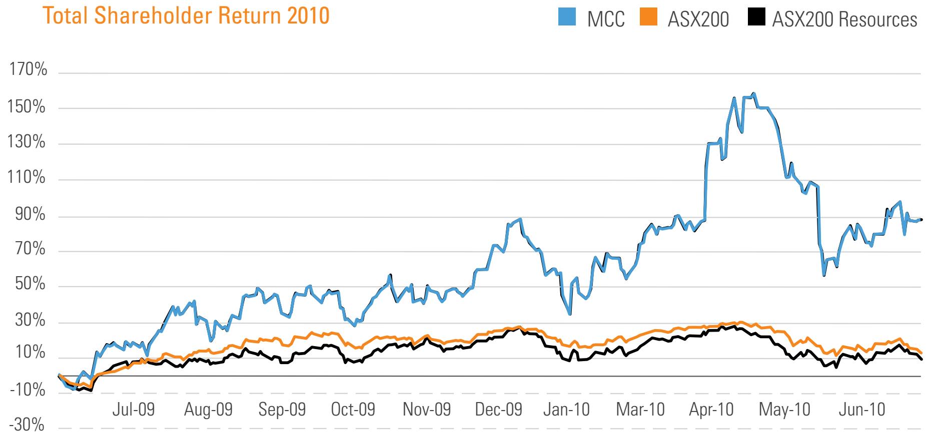
I would like to take this opportunity to acknowledge the efforts of our Managing Director, Nicole Hollows and the executive team of Macarthur Coal. The workload taken on by this group has been extraordinary. They have dealt with the impact of the global financial crisis, a planned merger, the Company's defence against unsolicited takeover offers, and a proposal for industry-changing new taxes. At the same time, they have returned Macarthur's operations to full production and delivered a record output for the year. The strong operating result from the business in 2010 is a result of their commitment to Macarthur Coal.

I would also like to thank my Board colleagues for their hard work and commitment during the year. They have been diligent and committed to assessing whether the various change of control proposals put to the Company offered value to you, the shareholders.

The people of Macarthur Coal also deserve thanks for their efforts during the year. Through a period of great change over the past two years, they have remained dedicated to their day-to-day responsibilities and their effort has underpinned the Company's success.

**Hon Keith De Lacy AM**
HonDLitt DUniv BA QDA FAICD FAIM
Chairman of the Board

### Total Shareholder Return 2010




*Source: Thomson Reuters*

Nicole Hollows
Chief Executive Officer and Managing Director

# MANAGING DIRECTOR'S REPORT

## SHAREHOLDERS

Last year, I reported that the way Macarthur Coal managed the impacts of the global financial crisis contributed to a positive result and provided a solid platform for future growth. This year, we capitalised on that platform, moving quickly to respond to a faster than expected recovery in demand.

The Company returned to full production during the year as our traditional customers resumed shipping contracted volumes of Macarthur Coal's product. We also benefitted from increasing sales to China which represents a new growth market as well as diversification of product for the Company.

The NPAT for 2010 was $125.1 million, being lower than last year largely due to the lower Australian dollar sales price.

## GROWING SHAREHOLDER VALUE

Our mission to grow shareholder value remains our reference point. With that in mind, we continued to progress plans to achieve sales of 9.2 million tonnes per annum (mtpa) by 2014 by continuing the construction of the Middlemount Mine project and continuing to evaluate options for our next mine from our project portfolio. Developing new mines has become a much more challenging and costly process than was the case when Coppabella and Moorvale mines were developed. Nevertheless, our targets remain for Middlemount to achieve full production of up to 4.0 mtpa (100%) and undertake Macarthur Coal's fourth mine development by 2014. In addition we will maintain a rolling ten-year mine life for both Coppabella and Moorvale mines.

We are establishing a team to progress our evaluation of our tenement portfolio for future development.

## VALUING PEOPLE

"Value people" is the first of Macarthur Coal's Four Pillars that shape the Company's culture. Our future success depends on what we do and also on how we live these values every day.

As production increased during 2010, Macarthur Coal re-hired some of the people we had to let go in response to the economic downturn in 2009. This was a win/win situation that demonstrated our values in action.

Macarthur Coal also recorded a significant improvement in safety performance in 2010 with our overall total recordable injury frequency rate (TRIFR) improving and being below industry average. Coppabella reported its lowest ever TRIFR of 16.4 which was also well below the industry average of 22.2. The safety of our people will always come first and we remain focused on continuing to improve in this area.

Macarthur Coal continues to develop its people with training and development programmes. Learning and development expenditure was not reduced during the global financial crisis. We have increased our focus in this area in 2010 and this will continue into 2011.

## OPERATIONAL EXCELLENCE

Macarthur shipped 5.3 million tonnes (Mt) for the year, which was above our target of 4.8 to 5.0Mt, given the return to full production and improvement in throughput on the Goonyella transport corridor in June.

The Coppabella Mine substantially improved production during the year. The mine produced 3.5Mt ROM for the year compared to its target of 3.2Mt ROM.

Moorvale produced 2.9Mt ROM compared with its target of 2.8Mt ROM with the first coal mined from Pit F which was opened during the year.

The Queensland Department of Environment and Resource Management introduced new water management regulations shortly before the start of the January to March 2010 wet season. Both mines responded quickly to meet new obligations under their Environmental Authorities including a full water management study at Coppabella. With rainfall ranging from 200-400mm across the region in March (associated with Cyclone Ului), in addition to high water levels from the early 2008 floods, there were still some discharges from both sites that were not in accordance with the new water regulations.

The discharges resulted in each mine receiving a penalty infringement notice of $2,000. We will undertake capital works at both sites in 2011 to help meet the new regulations.

## INFRASTRUCTURE

The recovery in coal demand during 2010 placed increasing pressure on the Goonyella coal chain. A return to shipping queues and loading delays led to reduced throughputs from Macarthur Coal's key export facility, Dalrymple Bay Coal Terminal (DBCT) and increased demurrage costs to the Company.

Securing future rail and port access is an important element in ensuring Macarthur Coal's future growth is sustainable. We achieved a number of important milestones in this area during the year.

Macarthur Coal received an additional 3.2mtpa of port capacity at DBCT in July 2009 increasing to 3.7mtpa from 1 July 2010. Take or pay charges apply on this capacity. The Company was able to mitigate the risk of take or pay charges during 2010 by allocating port capacity to the Coppabella and Moorvale Joint Venture (CMJV), supporting Coppabella and Moorvale to achieve annual sales volume targets, as well as some allocation to third parties.

In July 2009, Macarthur Coal commenced a rail haulage contract with Pacific National for up to 3.7mtpa, to match increased port capacity at DBCT. From 1 November 2010, Pacific National will commence rail haulage from the Coppabella and Moorvale mines, following expiry of the current QR National contract. Macarthur Coal will be a beneficiary of the Queensland Government's endorsement in April 2010 of construction of the Goonyella-Abbot Point expansion (GAPE), linking the Goonyella and Newlands rail systems that are operated by QR Network. This project underpins matching 3.0mtpa rail and port access contracts for the Middlemount Mine to export from an expanded Abbot Point Coal Terminal from 2012.

In May 2010, the Queensland Coal Industry Rail Group (QCIRG) consortium, of which Macarthur Coal is a participant, made an offer to the Queensland Government to acquire the central Queensland coal track network. The consortium's offer provides an alternative to the Government's proposed Initial Public Offering and ASX listing of the integrated freight network business and above rail train service business. The consortium's proposal would protect existing coal businesses, including Macarthur Coal, through direct ownership of the coal rail network. Negotiations are continuing at the time of this report.

## VALE KEN TALBOT

All of the people of Macarthur Coal were deeply saddened by the loss of the Company's inspirational founder, Ken Talbot in June. Ken's vision and entrepreneurial spirit established Macarthur Coal and created new opportunities for every one of the Company's people. Ken's legacy will live on within Macarthur Coal. His approach to people has been translated into the values that underpin Macarthur Coal today: value people, work together, lead the way, and talk straight.

In closing, I would like to thank our Chairman Keith De Lacy and the members of the Macarthur Coal Board for their support and guidance through another challenging year for the Company. I would also like to thank my team of senior executives and all of the people of Macarthur Coal for their effort and dedication to the Company's recovery after last year's economic downturn. The result delivered to the shareholders of Macarthur Coal during 2010, and our progress towards securing sustainable growth, is down to the determination and commitment of our people.

Nicole Hollows

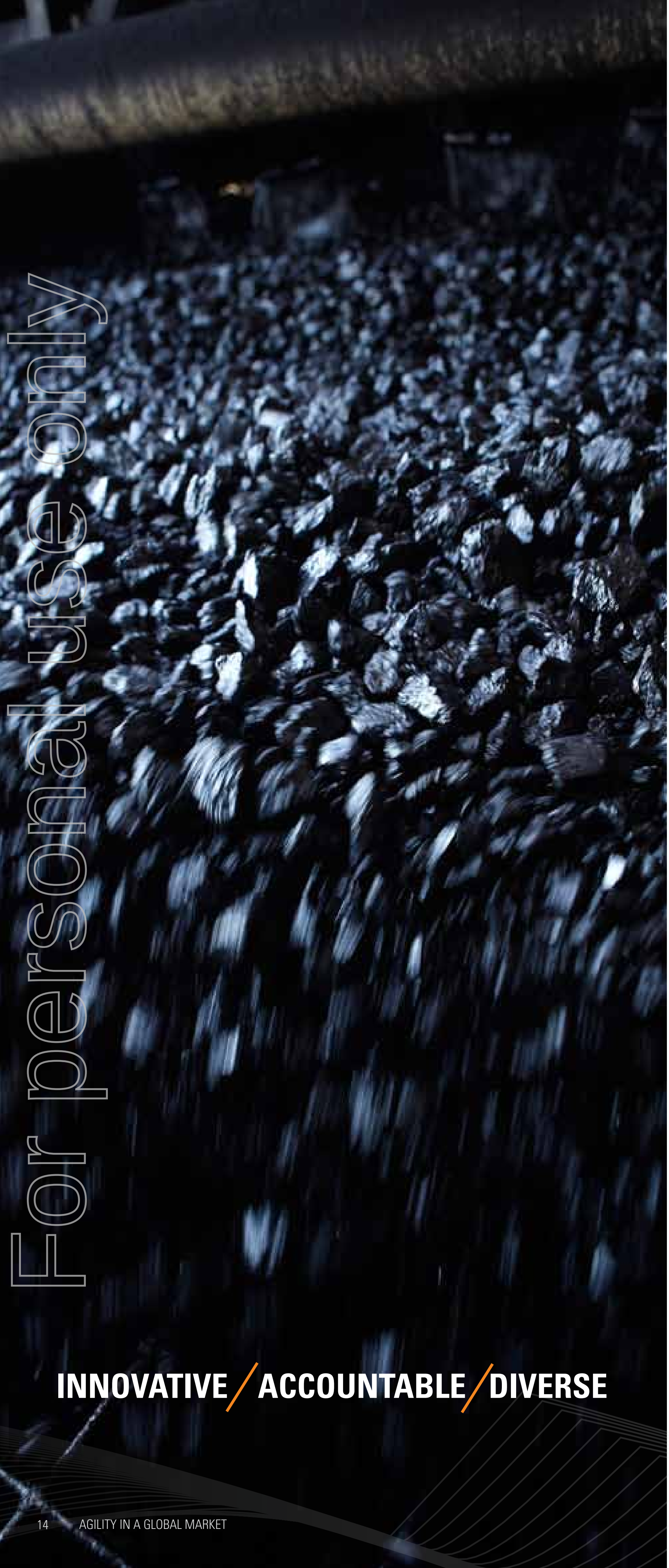
**Nicole Hollows**

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

Chief Executive Officer and Managing Director



# FOCUSED / AGILE / HIGH ENERGY






# FINANCIAL PERFORMANCE REPORT

DESPITE A CHALLENGING START TO THE YEAR, MACARTHUR COAL RECORDED A SOLID NET PROFIT AFTER TAX (NPAT) RESULT OF $125.1 MILLION FOR THE TWELVE MONTHS TO JUNE 2010 COMPARED WITH $168.6 MILLION FOR THE PREVIOUS FINANCIAL YEAR.

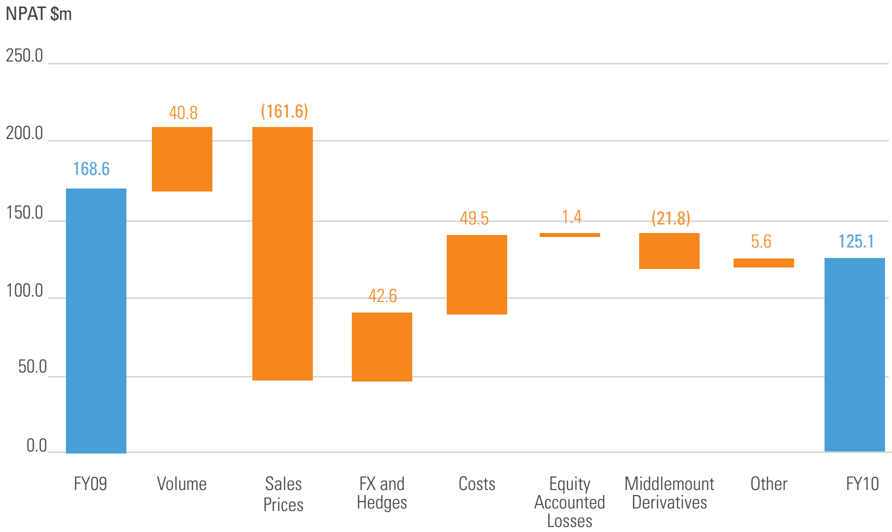
During 2010 Macarthur Coal's challenge was to adapt to uncontrollable economic factors that influenced the global mining sector. The agility of the Company contributed to a significant improvement in the NPAT result for the second half of 2010.

At the start of 2010 Macarthur Coal was impacted by the Global Financial Crisis (GFC) and weak demand for its flagship product, LV PCI coal. The Company's response was to reduce costs and shift production to thermal coal at the Moorvale Mine to generate cashflow. As the year progressed, demand for LV PCI coal improved as the Chinese steel industry began to import a significant quantity of coal and the remainder of the global economy began to recover. This led to a gradual and considered increase in production capacity at both of Macarthur Coal's mine sites.

The second half of the year was heavily influenced by the Asian markets with further increases in demand. Macarthur Coal returned to full production at the start of the 2010 calendar year to take advantage of increasing demand. The ability of the Company to rapidly increase the saleable production of LV PCI coal meant that it was able to capture higher value sales as the market recovered. This turnaround in demand, coupled with an equity raising (in the first half of the year), has meant that the Company is now in a very strong position to fund future growth.


| Results | | 2010 | 2009 | Variance % |
|---|---|---|---|---|
| Coal sold (including purchased coal) | '000 tonnes | 5,265 | 4,613 | 14% |
| Coal sold from production | '000 tonnes | 5,170 | 4,428 | 17% |
| Revenue from coal sales | $M | 670.5 | 695.4 | (4)% |
| EBITDA | $M | 213.1 | 281.4 | (24)% |
| NPAT | $M | 125.1 | 168.6 | (26)% |
| Dividends per share | cents | 25.0 | 13.0 | 92% |
| Operating cashflow | $M | 177.1 | 214.4 | (17)% |
| Net debt/(cash) | $M | (248.8) | (159.7) | 56% |
| Gearing (net debt/shareholders' equity) | % | (22.0) | (15.8) | 39% |
| Net interest cover (EBITDA/interest paid) | times | 25.0 | 41.0 | (39)% |
| Return on invested capital | % | 10.7 | 16.2 | (34)% |
| Net tangible assets per share | $/share | 4.3 | 4.0 | 8% |

Main drivers of decrease in NPAT from 2009 ($m)




Although a majority of sales for the year were on benchmark LV PCI coal contract prices set from April 2009, Macarthur Coal was able to secure higher pricing for sales to non-traditional customers and for sales in the April to June 2010 contract quarter. These two factors underpinned the NPAT result.

Average pricing of coal sold from production for the 2010 financial year was $129.69 per tonne, significantly lower than in 2009 ($157.07 per tonne). However, Macarthur Coal was able to exploit the recovery in steel markets and utilise excess infrastructure capacity to record a sales record of 5.3Mt (a 14% increase from 4.6Mt 2009).

During the GFC, Macarthur Coal reduced its production capacity at Coppabella Mine, and to a lesser extent its Moorvale Mine, in response to the slowdown in the metallurgical coal market.

The Company took a conservative approach to overburden removal in advance of coal to maximise operating cashflows. As the market for metallurgical coal improved during the year Coppabella's proportion of saleable production also increased. The rate of royalties paid to the Queensland Government similarly increased in line with the higher coal prices in the second half of 2010.

The shipping queue at Dalrymple Bay Coal Terminal (DBCT) continues to be a challenge for the industry and has contributed to higher operating costs as a result of demurrage charges on vessels.

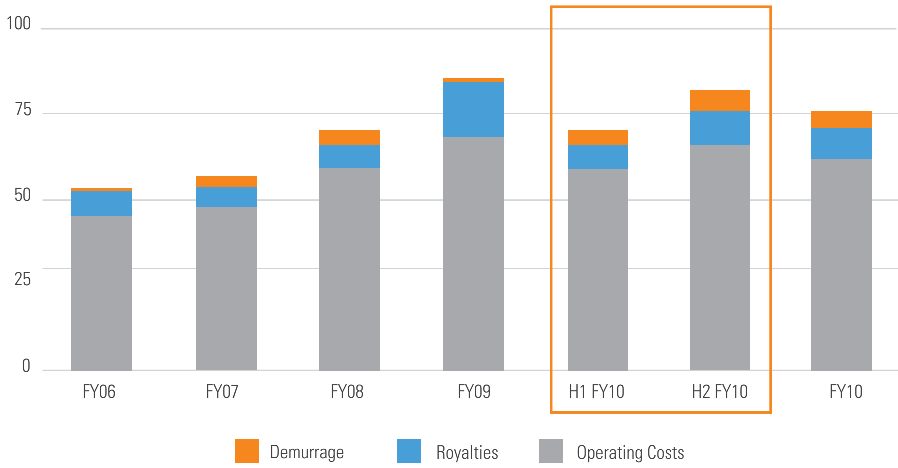
Operating costs per tonne of coal sold have reduced due to lower royalties, less purchased coal, a positive adjustment to the rehabilitation provision, and fewer rail charges. These savings were partially offset by an increase in demurrage and overburden removal costs. Increased costs associated with higher strip ratios at both Coppabella and Moorvale mines were partially offset by more economic overburden removal rates.

Other factors affecting the 2010 result were the increase in the valuation of Middlemount derivatives, and higher amortisation from additional leased equipment.

Net operating cashflow in 2010 from Macarthur Coal's operations was strong, primarily due to reduced costs and the recovery in export markets during the year. This leaves Macarthur Coal in a strong financial position with a closing cash balance of $348.2 million.

| Five Year Performance | | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| Revenue from coal sales | $M | 670.5 | 695.4 | 400.2 | 362.8 | 534.8 |
| EBITDA | $M | 213.1 | 281.4 | 136.2 | 98.1 | 227.6 |
| EBIT | $M | 181.8 | 260.2 | 117.7 | 82.0 | 211.6 |
| Net profit after tax (NPAT) | $M | 125.1 | 168.6 | 72.7 | 66.5 | 149.6 |
| Earnings per share | cents | 49.3 | 79.3 | 36.6 | 35.5 | 83.3 |
| Dividends per share | cents | 25.0 | 13.0 | 17.0 | 18.0 | 41.0 |
| Gearing (net debt/shareholders' equity) | % | (22.0) | (15.8) | 3.8 | (19.1) | (40.4) |
| Net interest cover (EBITDA/interest paid) | times | 25.0 | 41.0 | 44.7 | 60.5 | 67.9 |
| Return on Invested Capital | % | 10.7 | 16.2 | 10.0 | 13.3 | 36.8 |
| Net Tangible Assets per share | $/share | 4.34 | 4.03 | 3.13 | 2.21 | 2.09 |

Macarthur Coal FOB Cash Costs ($A/t)




The value of foreign exchange contracts held at 30 June 2010 was:

| Period covered by FX Hedge Contracts | US dollar value | FX rate A$1.00 = US$ | A$ Unrealised (loss)/gain based on A$:US$ spot rate of $0.8523* |
|---|---|---|---|
| Jul 10 to Sep 10 | 153,616,784 | 0.8631 | (2,245,012) |
| Oct 10 to Dec 10 | 43,902,599 | 0.8398 | 765,466 |
| **Total** | **197,519,383** | **0.8578** | **(1,479,546)** |

* A$:US$ spot rate as at 30 June 2010

The Company's key debt facility, the Syndicated Facilities Agreement (SFA), was extended during the reporting period until 31 December 2010 for the $65 million guarantee facility. Macarthur Coal will be putting in place a new corporate facility over the next six months.

The Coppabella and Moorvale Joint Venture (CMJV) has an equipment leasing facility in place with GE and St George Bank to September 2013. The facility limit, originally $180 million, was $113 million as at 30 June 2010.

Macarthur Coal had a net cash position (cash less interest bearing liabilities) at 30 June 2010 of $248.8 million.

Macarthur anticipates utilising the cash currently held to fund the development of the Middlemount Mine, the capital requirements at the Coppabella and Moorvale mines, and the exploration and evaluation of the tenement portfolio.

Macarthur Coal is involved in the Queensland Coal Industry Rail Group (QCIRG) consortium bidding to purchase certain QR National assets. Should a bid be successful it is likely that Macarthur will be required to contribute funds in the form of equity. As this is yet to become a binding financial commitment, Macarthur is yet to determine the most appropriate means of financing its involvement.

Contract settlements for the 2010 Japanese Financial Year have moved to a quarterly price settlement arrangement. This has been a fundamental shift for the industry and one that will increase the volatility in earnings quarter on quarter. This shift does not, however, alter the Company's hedging policy.

Macarthur continues to enter into foreign exchange contracts (FX hedges) for 85% of estimated revenues from fixed price US dollar sales contracts as they are entered into. As at 30 June 2010, Macarthur Coal has $197.5 million of US dollar hedges in place, all of which relate to future fixed price contracts.

The coal market is expected to remain volatile. However, over the past twelve months, Macarthur Coal has positioned itself to be able to take advantage of opportunities that arise and withstand unexpected fluctuations in market prices. The Company remains focused on funding future expansion and on delivering healthy returns to shareholders.

# FIVE YEAR PERFORMANCE HISTORY

| | | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **PROFIT AND LOSS** | | | | | | |
| Sales revenue | $000's | 670,502 | 695,417 | 400,231 | 362,796 | 534,755 |
| EBITDA | $000's | 213,054 | 281,434 | 136,222 | 98,135 | 227,601 |
| Depreciation | $000's | 7,754 | 8,254 | 9,765 | 8,323 | 8,241 |
| Amortisation | $000's | 23,525 | 13,006 | 8,785 | 7,839 | 7,770 |
| EBIT | $000's | 181,775 | 260,174 | 117,672 | 81,973 | 211,590 |
| Financial income | $000's | 14,174 | 3,272 | 7,784 | 17,028 | 7,645 |
| Financial expenses | $000's | 12,169 | 8,912 | 5,825 | 4,295 | 5,189 |
| Equity accounted profits/(losses) | $000's | (10,934) | (12,338) | (3,666) | - | - |
| Income tax expense | $000's | 47,782 | 73,638 | 43,281 | 28,161 | 64,456 |
| NPAT | $000's | 125,064 | 168,558 | 72,684 | 66,545 | 149,589 |
| **BALANCE SHEET** | | | | | | |
| Current assets | $000's | 779,842 | 676,595 | 371,269 | 357,908 | 319,693 |
| Non-current assets | $000's | 787,229 | 751,409 | 665,997 | 254,741 | 272,423 |
| Total assets | $000's | 1,567,071 | 1,428,004 | 1,037,266 | 612,648 | 592,116 |
| Current liabilities | $000's | 211,801 | 180,481 | 153,228 | 98,090 | 121,986 |
| Non-current liabilities | $000's | 226,675 | 238,458 | 193,562 | 99,748 | 78,957 |
| Total liabilities | $000's | 438,476 | 418,939 | 346,790 | 197,838 | 200,943 |
| Interest bearing debt | $000's | 99,422 | 107,833 | 48,515 | 17,328 | 10,716 |
| Net debt | $000's | (248,794) | (159,743) | 26,037 | (79,237) | (157,887) |
| Net assets | $000's | 1,128,595 | 1,009,065 | 690,476 | 414,810 | 391,173 |
| Shareholders' equity | $000's | 1,128,595 | 1,009,065 | 690,476 | 414,810 | 391,173 |
| **CASH FLOW** | | | | | | |
| Net receipts/(payments) in the course of operations | $000's | 221,314 | 212,361 | (15,656) | 78,311 | 221,630 |
| Other receipts/(payments) from operating activities | $000's | (44,186) | 2,044 | (20,212) | (48,181) | (20,139) |
| Cash flows from operating activities | $000's | 177,128 | 214,405 | (35,868) | 30,131 | 201,491 |
| Payments for exploration, evaluation and development | $000's | (10,310) | (14,769) | (8,522) | (8,421) | (6,729) |
| Payments for property, plant and equipment | $000's | (9,824) | (25,021) | (16,348) | (19,829) | (7,301) |
| Other receipts/(payments) from investing activities | $000's | (60,403) | (46,042) | (6,736) | (12,570) | 51,121 |
| Cash flows from investing activities | $000's | (80,537) | (85,832) | (31,606) | (40,820) | 37,091 |
| Proceeds from issue of shares | $000's | 61,997 | 184,583 | 0 | 0 | 152 |
| Net increase/(repayment) of borrowings | $000's | 0 | (21,842) | 19,762 | (1,139) | (20,434) |
| Dividends paid | $000's | (53,410) | (29,702) | (19,481) | (54,340) | (61,412) |
| Other receipts/(payments) from financing activities | $000's | (24,538) | (16,514) | (6,894) | (5,869) | (6,423) |
| Cash flows from financing activities | $000's | (15,951) | 116,525 | (6,613) | (61,348) | (88,117) |
| **SHARES** | | | | | | |
| Number of shares on issue at year end | 000's | 254,333 | 243,980 | 212,157 | 187,380 | 187,380 |
| Closing share price | $/share | 12.12 | 6.60 | 16.87 | 6.77 | 4.48 |
| Earnings per share basic | cents | 49.3 | 79.3 | 36.6 | 35.5 | 83.3 |
| Earnings per share diluted | cents | 49.3 | 79.2 | 36.6 | 35.5 | 83.2 |
| Net tangible assets per share | $/share | 4.34 | 4.03 | 3.13 | 2.21 | 2.09 |
| Dividends per share | cents | 25.00 | 13.00 | 17.00 | 18.00 | 41.00 |
| Dividend payout ratio | % | 50.8 | 19.6 | 49.6 | 50.7 | 50.9 |
| Market capitalisation | $000's | 3,082,516 | 1,610,268 | 3,579,089 | 1,268,565 | 839,464 |
| **RATIOS** | | | | | | |
| Return on average shareholders equity | % | 11.7 | 19.8 | 13.2 | 16.5 | 47.7 |
| Return on invested capital | % | 10.7 | 16.2 | 10.0 | 13.3 | 36.8 |
| Return on assets | % | 8.0 | 11.8 | 7.0 | 10.9 | 25.3 |
| Net interest cover (EBITDA/interest paid) | times | 24.96 | 41.0 | 44.7 | 60.5 | 67.9 |
| Net debt to equity | % | (22.0) | (15.8) | 3.8 | (19.1) | (40.4) |
| **OTHER** | | | | | | |
| Average coal price | A$/tonne | 129.69 | 157.07 | 109.13 | 95.61 | 108.41 |
| Cost excluding EBITDA/tonne sold | A$/tonne | 88.48 | 93.50 | 71.98 | 69.75 | 62.27 |
| EBITDA/tonne sold | A$/tonne | 41.21 | 63.56 | 37.14 | 25.86 | 46.14 |
| NPAT/tonne sold | A$/tonne | 24.19 | 38.07 | 19.82 | 17.54 | 30.33 |
| Shipments - excluding purchased coal | | | | | | |
| **Coppabella - 100%** | **tonnes 000's** | **3,886** | **3,106** | **2,816** | **3,749** | **4,014** |
| **Moorvale - 100%** | **tonnes 000's** | **3,168** | **2,934** | **2,202** | **1,428** | **2,715** |
| **Macarthur Coal's attributable tonnage** | **tonnes 000's** | **5,170** | **4,428** | **3,678** | **3,795** | **4,933** |
| **PRODUCTION - attributable to Macarthur Coal** | | | | | | |
| **Coppabella** | | | | | | |
| Overburden removed | bcm 000's | 27,690 | 21,958 | 27,409 | 34,423 | 32,189 |
| Run-of-mine production | tonnes 000's | 3,468 | 2,899 | 2,169 | 3,715 | 3,347 |
| CHPP feed | tonnes 000's | 3,349 | 3,012 | 2,528 | 3,236 | 3,824 |
| Average CHPP plant yield | % | 80 | 81 | 79 | 79 | 79 |
| Saleable coal production | tonnes 000's | 2,695 | 2,441 | 1,989 | 2,559 | 3,020 |
| **Moorvale** | | | | | | |
| Overburden removed | bcm 000's | 18,677 | 16,237 | 13,425 | 11,173 | 8,650 |
| Run-of-mine production | tonnes 000's | 2,912 | 2,887 | 1,938 | 1,684 | 2,432 |
| CHPP feed | tonnes 000's | 3,030 | 2,716 | 2,035 | 1,621 | 2,607 |
| Average CHPP plant yield | % | 77 | 82 | 76 | 66 | 77 |
| Saleable coal production | tonnes 000's | 2,334 | 2,229 | 1,543 | 1,075 | 2,002 |
| **Total** | | | | | | |
| Overburden removed | bcm 000's | 46,367 | 38,195 | 40,834 | 45,596 | 40,839 |
| Run-of-mine production | tonnes 000's | 6,380 | 5,787 | 4,107 | 5,399 | 5,779 |
| CHPP feed | tonnes 000's | 6,379 | 5,728 | 4,563 | 4,857 | 6,430 |
| Saleable coal production | tonnes 000's | 5,030 | 4,669 | 3,531 | 3,635 | 5,022 |



# REMEMBERING KEN TALBOT

*26 August 1950 – 19 June 2010*

## KEN TALBOT WAS A PIONEER AND ICON OF THE AUSTRALIAN COAL INDUSTRY. IN JUNE, HE WAS PURSUING HIS INTERNATIONAL VISION FOR THE COAL, STEEL AND ENERGY INDUSTRIES WHEN HE WAS TRAGICALLY KILLED IN A PLANE CRASH IN AFRICA.

Not only was he the founder of Macarthur Coal, Ken was the driving force behind the Company for over a decade. It was through his perseverance, tenacity and can do attitude that Macarthur Coal became a Queensland corporate success story. The Company will be forever in his debt.

Ken was a big picture man with entrepreneurial flair and a gift for building lasting friendships with people from all walks of life. He was incredibly loyal and passionate and the opportunities he created were shared with those around him. Ken's secret was to find the 'win-win' scenario for both his business partners and his customers, and this proved to be a winning formula.

For those who shared his journey to build Macarthur Coal, Ken showed the team what could be achieved when you take calculated risks and don't take no for an answer. He was able to share his vision for Macarthur Coal with investors and customers alike, and brought people together with the common goal of building a leading independent coal company.

When Ken wanted to develop Coppabella Mine the odds were against him. The economy was experiencing a downturn and banks were reluctant to support a small coal mining company when prices were depressed. But Ken prevailed – a testament to his ability to build strong and respected relationships within the industry.

Today, Macarthur's values of "Value People, Lead the Way, Work Together and Talk Straight" are a reflection of Ken Talbot's personal values and his unique 'work hard, play hard' approach to life. His generosity was legendary. Not only has he left a lasting legacy at Macarthur Coal but also in the communities in which he has lived.

As a self professed old school miner, he will be remembered as a businessman, philanthropist, friend and family man.

# 2 OPERATIONS

# SNAPSHOT

OPERATIONAL EXCELLENCE HAS BEEN AN IMPORTANT OBJECTIVE SINCE MACARTHUR COAL COMMENCED AS OWNER OPERATOR AT COPPABELLA IN DECEMBER 2006. THE BROAD AREAS OF FOCUS FOR ACHIEVING OPERATIONAL EXCELLENCE ARE HEALTH AND SAFETY, MINE PRODUCTIVITY AND PLANNING, COST MANAGEMENT AND ENVIRONMENTAL PERFORMANCE.

Providing a safe working environment for Macarthur Coal's people is the cornerstone of operational excellence so it is pleasing to report that the Company's safety record continued to improve in 2010. At Coppabella Mine the safety record is better than it has ever been in its history and well below the industry average.

Nevertheless, it is critical that Macarthur Coal remains vigilant about safety every day and continuous improvement is a key objective in this area.

During 2010, Macarthur Coal re-employed 28 operations people that had been made redundant in 2009 in response to the global financial crisis. This was a demonstration of the value placed on employees and benefitted the business by re-engaging people who are trained in Macarthur's equipment and processes. Continuing to live these values will be important in helping the business retain its workforce as the resources industry continues to expand and demand for skilled workers increases. See page 48 for further information on People.

Coppabella and Moorvale mines returned to full production in response to increasing coal demand, and it was important to remain focused on equipment productivity and utilisation to achieve annual sales targets. In fact, the shovel and excavator fleets achieved several monthly records throughout the year.

Coppabella Mine utilised its full production fleet from late 2009 contributing to actual coal mined being ahead of target. In addition, the successful trial of innovative coal specific truck bodies resulted in a more efficient coal mining fleet. Selective mining techniques in Coppabella's East Pit also proved successful with higher feed rates in the Coal Handling and Preparation Plant (CHPP) and higher yields than predicted.

Moorvale Mine's fleet returned to full production ahead of plan in July 2009 and produced coal well ahead of targets for the year. The northern part of the mine – Pit F – was opened during the year using 'terrace mining', a new mining methodology for Macarthur Coal. The introduction of terrace mining at Moorvale and a forward looking coal quality process will help Moorvale Mine maintain a rolling ten-year mine life. See the case study on Pit F on page 25 which explains 'terrace mining' methodology.

Increased water management requirements were introduced by the Department of Environment and Resource Management in December 2009 and remain an important focus for the Company. Although water management plans were developed and capital expenditure planned for water management infrastructure, the water storages on site were almost at full capacity from the 2008 floods. The wet season at the commencement of 2010 saw significant rainfall at both the Coppabella and Moorvale mines resulting in water discharges from both sites and penalty infringement notices (PIN). Each PIN carried a fine of $2,000. Further capital expenditure is planned during the 2011 financial year to manage the new water discharge conditions and ensure good environmental performance at both mine sites.

OPERATING MINES

INFRASTRUCTURE

CUSTOMERS AND COAL MARKETS



Coal is transported through the Goonyella coal chain to the Dalrymple Bay Coal Terminal (DBCT) for exporting

**Below Rail**
QR Network

**Above Rail**
QR National
Pacific National

**Port**
DBCT

**Customers – 3 Continents**
Americas – 12%
Asia – 63%
Europe – 25%

| ACHIEVEMENTS AND CHALLENGES | SECTION REFERENCE |
|---|---|
| **Coppabella and Moorvale mines** | |
| Operational excellence has been an important objective since Macarthur Coal commenced as owner operator at Coppabella in December 2006. The broad areas of focus for achieving operational excellence are health and safety, mine productivity and planning, cost management and environmental performance.<br>Providing a safe working environment for Macarthur Coal's people is the cornerstone of the Company's operational excellence objective and continually finding ways to improve environmental performance also underpins the objective of operational excellence.<br>The Sustainability section on page 43 provides commentary on achievements and challenges in these important areas.<br>During 2010, Macarthur Coal completed re-employment of operations people that had been made redundant in 2009 in response to the global financial crisis, demonstrating the value placed on employees. Macarthur Coal also focused on optimal mine planning resulting in no depletion of JORC reserves at Coppabella.<br>Coppabella and Moorvale mines returned to full production earlier than planned in response to a rapid increase in customer demand. Improved equipment production during the year was assisted by a strategy to improve productivity and utilisation of the large mining fleets, for which several monthly records were achieved. Also, access to tier one tyres improved truck fleet productivity.<br>Coppabella Mine expanded its production fleet in 2010 by reinstating equipment parked during the downturn which contributed to actual coal mined being well ahead of target. In addition, the successful trial of innovative coal specific truck bodies contributed to a more efficient coal mining fleet. Selective mining techniques in Coppabella's East Pit also proved successful with higher yield and higher feed rates in the Coal Handling and Preparation Plant (CHPP) than predicted.<br>Moorvale Mine's production fleet was brought back to full production in July 2009 ahead of plan and the mine also produced coal ahead of target for the year. The northern part of the Mine – Pit F – was opened during the year introducing 'terrace mining', a new mining methodology for Macarthur Coal. The introduction of terrace mining at Moorvale and forward looking coal quality process will help Moorvale Mine maintain a rolling ten-year mine life. See the case study on Pit F on page 25 which explains 'terrace mining' methodology, which will be at a higher operating cost given limited dozer push and cast blast.<br>Terowie Village, Macarthur's purpose built accommodation village at Moorvale, featuring 320 rooms, central kitchen and recreational facilities commenced operation in July 2009. State of the art recreational facilities at the village, including a pool, gymnasium, squash and tennis courts were completed during the year. At peak times Terowie Village can accommodate up to 500 residents a month. | pages 22 to 25 |
| **Infrastructure** | |
| To achieve Macarthur Coals' strategic objective of sustainable growth, it is critical that access to rail and port infrastructure is secured.<br>During the year, the Company completed its objective of aligning its contracted rail and port capacity. This was achieved when:<br>• Macarthur Coal and the CMJV each signed long-term contracts with Pacific National for the haulage of coal to Dalrymple Bay Coal Terminal (DBCT) from the Coppabella and Moorvale mines<br>• Following the completion of the Stage 7 DBCT expansion at the end of the 2009 financial year, the Company also obtained additional take-or-pay capacity at DBCT.<br>As coal demand recovered during 2010, significant shipping delays were once again a factor affecting all coal exporters using the Goonyella Coal System. Substantial investments continue to be made to expand capacity and all stakeholders collaborate to optimise the performance of this critical infrastructure asset. Macarthur Coal's increased capacity enabled record sales to be made from Coppabella and Moorvale mines.<br>The Company welcomed the Queensland Government's endorsement of the construction of the Goonyella Abbot Point expansion, connecting the Goonyella rail system with the Newlands rail system paving the way for coal produced in the northern Bowen Basin to be exported through an expanded Abbot Point Coal Terminal. Capitalising on this endorsement, the Company was also able to secure matching port and rail access at the expanded Abbot Point Coal Terminal from January 2012, supporting the development of the Middlemount Mine project.<br>During the year, the Company also participated in an industry led consortium to develop and fund the Wiggins Island Coal Terminal. | page 26 |
| **Customers and Coal Markets** | |
| Demand for metallurgical coal progressively improved throughout the year presenting the challenge of balancing the requirements of existing customers with new customers secured during the global financial crisis.<br>Significant effort went into expanding the Company's customer base including developing networks and relationships to capitalise on the developing markets in China and India and the Company secured its first shipment of 'Coppabella PCI' to Hyundai Steel during the year.<br>Shorter term pricing arrangements sought by customers also presented a challenge and, in line with the majority of coal producers, Macarthur Coal moved to quarterly or bi-annual contract pricing periods in 2010 in response to increasing price volatility. | page 28 |

"THE ADAGE 'SAFETY PAYS' HAS APPLIED TO COPPABELLA WITH A CONTINUALLY IMPROVING SAFETY CULTURE TRANSLATING TO BETTER OPERATIONAL PERFORMANCE." Peter Kane, Chief Operating Officer

# COPPABELLA MINE

MACARTHUR COAL DEVELOPED THE COPPABELLA MINE ON TIME AND ON BUDGET FROM A GREENFIELD SITE IN JUNE 1998 TO AN OPERATING MINE IN LESS THAN FIFTEEN MONTHS. COPPABELLA WAS OPERATED BY CONTRACTORS UNTIL DECEMBER 2006 WHEN MACARTHUR FIRST BECAME AN OWNER OPERATOR.

## 2010 PERFORMANCE

Coppabella returned to full production in 2010 as coal demand returned to levels experienced before the global financial crisis. The two excavator fleets stood down in December 2008 were returned to full service by September 2009. The mine also installed greater dozer capacity to increase the removal of overburden. As a result, the mine produced 2.7Mt of product coal for the reporting period, exceeding its production target of 2.6Mt which was originally based on full production for the year.

Productivity improved during the year on all equipment including several production records. The improved production performance was achieved despite Moranbah recording double its historical mean rainfall during January, February and March. Force majeure was declared from 19 to 29 March 2010 in response to the suspension of port and rail services through DBCT as a result of Cyclone Ului.

## COPPABELLA MINE

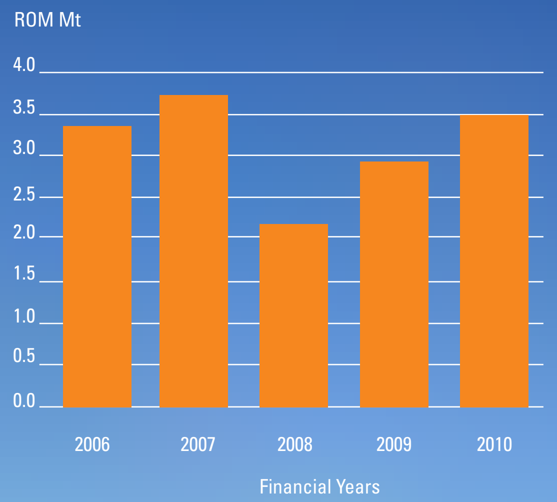
| | |
|---|---|
| Macarthur Coal's ownership | 73.3% |
| Other ownership interests | 7% CITIC Resources Australia Pty Ltd<br>7% Marubeni Corporation<br>7% Sojitz Corporation<br>3.7% JFE Shoji Trade Corporation<br>2% NS Trading Co Ltd |
| Tenements | ML 70161, ML 70163, ML 70164, ML 70236 and ML 70237 |
| Location | 140km south-west of Mackay near the townships of Nebo and Moranbah |
| Coal type | LV PCI Coal<br>The average seam thickness is 10 metres |
| Manager | Macarthur Coal (C&M Management) Pty Ltd on behalf of the Coppabella and Moorvale Joint Venture |
| Mining operations | Coal is mined using conventional strip mining using a dragline with truck and shovel and excavators for pre-stripping operations.<br>Mining operations are carried out by Macarthur Coal (C&M Management) Pty Ltd (MCCM) and coal processing is undertaken by Sedgman Ltd through an 800tph CHPP.<br>Mining and coal preparation activities are carried out 24 hours per day, seven days a week.<br>Blasting activities are carried out by Orica Ltd. |
| 2010 production target | 2.6 million tonnes (Mt) product |
| 2010 actual production | 2.7Mt product and 3.5Mt ROM |
| 2011 production target | 2.8Mt product |

In spite of the impact of wet weather, Coppabella reported attributable coal sales of 633Kt in the March quarter, an improvement of 49.2% on the corresponding quarter of the previous year. The impact of wet weather on operations totalled 40 days throughout the summer wet season.

Coppabella managed to maintain its JORC reserves, not withstanding ROM tonnes mined during the year.

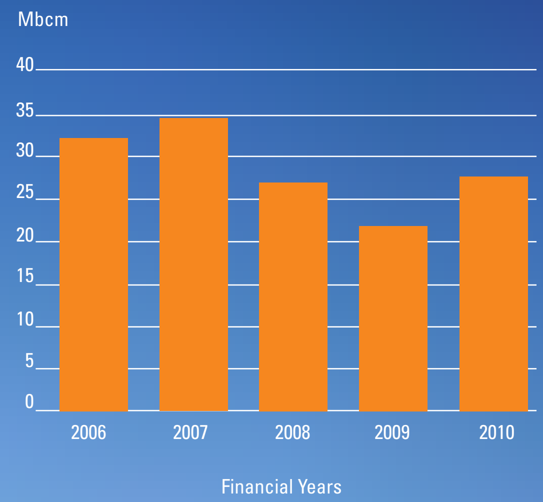
See the Sustainability section on page 43 for further detail on performance for the Coppabella Mine.

Coppabella ROM Coal (Mt)




ROM tonnes in 2010 were higher given the return to full production and consuming prior years overburden removed in advance.

Coppabella Overburden Mined (Mbcm)




Overburden removal increased year on year but was lower than full production given the GFC. Overburden removal rates were at full production capacity from January 2010.

# MOORVALE MINE

THE MOORVALE MINE IS AN OPEN-CUT MINE 13 KMS SOUTH OF THE COPPABELLA MINE IN QUEENSLAND'S BOWEN BASIN.

MOORVALE WAS DEVELOPED IN LESS THAN TWELVE MONTHS. ITS FIRST COAL WAS MINED IN MARCH 2003 AND ITS FIRST COAL TRAIN LOADED IN DECEMBER THE SAME YEAR.

Moorvale returned to full production during the financial year, producing 2.3 million tonnes (Mt) of product coal which was well ahead of budgeted production of 1.8Mt. Mining at Moorvale was prioritised in 2010 given the global financial crisis. The mine had lower operating costs coupled with flexibility to produce thermal coal from the mid working section of the seam.

The 2010 target was based on continued mining in A and E pits and opening Pit F with a production fleet of three dozers and three excavators. As a result of increasing customer demand and the sale of thermal coal given the global financial crisis, the third of the dozers and excavators were commissioned in July 2009, ahead of the scheduled re-start in September 2009. At present, the mine is operated by Leighton Contractors Pty Ltd and coal processing is operated by Sedgman Ltd overseen by Macarthur Coal (C&M Management) Pty Ltd.

For the past year, run of mine (ROM) production at Moorvale was 2.9Mt which was in line with the previous year.

Excellent throughput and availability of the Moorvale CHPP also contributed to strong production figures.

"IT IS MOST PLEASING TO SEE MOORVALE MINE PRODUCTION AT RECORD LEVELS, PROVING THE TRANSITION TO A DIFFERENT MINING METHOD IN THE NORTHERN PART OF OUR OPERATIONS WAS WELL WITHIN OUR CAPACITY." Peter Kane, Chief Operating Officer

MOORVALE MINE

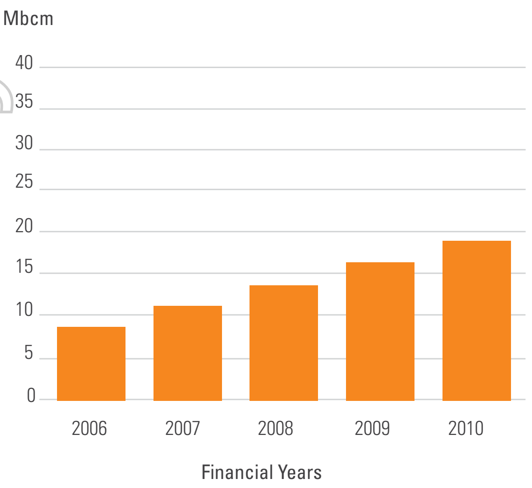
| | |
|---|---|
| Macarthur Coal's ownership | 73.3% |
| Other ownership interests | 7% CITIC Resources Australia Pty Ltd<br>7% Marubeni Corporation<br>7% Sojitz Corporation<br>3.7% JFE Shoji Trade Corporation<br>2% NS Trading Co Ltd |
| Tenements | ML 70290, ML 70291, ML 70319 |
| Location | 156km south-west of Mackay near the townships of Nebo and Moranbah |
| Coal type | LV PCI coal<br>Coking coal<br>Thermal coal<br>The average seam thickness of the resource is nine metres |
| Manager | Macarthur Coal (C&M Management) Pty Ltd (MCCM) on behalf of the Coppabella and Moorvale Joint Venture |
| Mining operations | Mine management and technical services are carried out by MCCM.<br>Mining operations are carried out by Leighton Contractors Pty Ltd using trucks and excavators.<br>Coal handling, preparation and train loading are carried out by Sedgman Ltd through a 600tph CHPP.<br>Mining and coal preparation activities are carried out 24 hours per day, seven days per week.<br>Blasting activities are carried out by Orica Limited.<br>Drilling is undertaken by Drillpro. |
| 2010 production target | 1.8Mt product |
| 2010 production | 2.3Mt product and 2.9Mt ROM |
| 2011 production target | 2.1Mt product |

The CHPP achieved a number of monthly throughput records throughout the year.

In January 2010, the plant recorded its highest monthly feed of 410,930 tonnes.

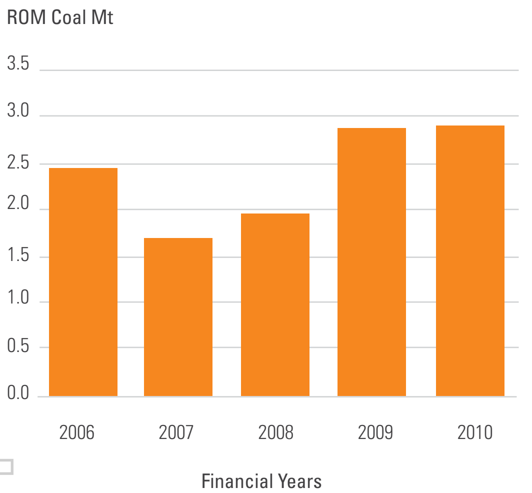
A sustained period of rainfall during the three months to March 2010 caused a minor impact on ROM production. See the Sustainability section on page 43 for further detail on performance for the Moorvale Mine.

Moorvale Overburden Mined (Mbcm)




The increased rate of overburden removal at Moorvale Mine was due to a higher strip ratio at the mine and the increase in ROM coaling in 2010.

Moorvale ROM Coal (Mt)




ROM coal production at Moorvale Mine returned to full production in July 2009 given the focus on thermal coal and spot sales to China in the first half of the year.

# MOORVALE MINE – PIT F

Moorvale Mine is made up of six pits (A to F) and production during this financial year was based on the mining of two pits, A and E, and the opening of Pit F.

Pit F is different to the other pits at Moorvale and presented the team with a unique set of challenges. A and E pits have shallow dipping coal seams however, in contrast to this, Pit F's coal seam dips steeply and splits into two sections.

To combat this, Moorvale has successfully implemented a new mining method called 'terrace mining'. This method is not widely used in the Bowen Basin, but is standard in other parts of Australia particularly in open pits that have steeply dipping ore bodies.

The Pit F terrace mining method relies solely on excavation by truck and shovel, and consequently has a higher cost per cubic metre than excavation in Pits A and E which use a proportion of cast blast and dozer push.

By the end of 2010, Moorvale had six working benches opened and had almost completed mining the first two of eight blocks in Pit F. A complex ramp system also enables backfilling the pit with waste in line with Macarthur Coal's Life of Mine dumping strategy.

A critical success factor for Pit F has been the use of in-pit quality drilling to guide excavation plans and more accurately mine coal to customer specifications. Pit F mining will be the focus over the next three years and will result in increased mining costs given limited dozer push and cast blast with terrace mining.

The terrace mining methodology and coal quality process developed through the Pit F experience will be critical to future mining extraction at Macarthur Coal's mining operations at Moorvale's Pit C and at Olive Downs North. This experience has highlighted the ability of the business to adopt new mining methods and meet production targets.

*Image courtesy of DBCT*

# INFRASTRUCTURE

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 OF DALRYMPLE BAY COAL TERMINAL (DBCT) AND HAY POINT COAL TERMINAL. IN 2010 ALL OF MACARTHUR COAL'S PRODUCT WAS SHIPPED THROUGH DBCT.

During the year, demand for coal exported from Australia returned to high levels causing renewed congestion in the Goonyella coal chain and, as a result, supply chain constraints for Macarthur Coal. Despite this congestion, a significant throughput improvement was obtained compared to the previous year.

Securing future rail and port access is a critical component of Macarthur's sustained growth. During the year, the Company secured matching rail and port access at the expanded Abbot Point Coal Terminal to support the development of the Middlemount Mine project. This arrangement provides Macarthur with another option to export coal to international customers.

## GOONYELLA COAL CHAIN

In recent years, increasing demand for coal exports has placed pressure on the Goonyella coal chain and caused significant congestion. Substantial investments continue to be made to expand capacity and all stakeholders collaborate to optimise the performance of this critical infrastructure network.

As coal demand recovered during 2010, significant shipping delays were once again a factor affecting all coal exporters using the Goonyella system. Annual throughput for DBCT was approximately 63Mt which was 26% less than annual contracted capacity (85Mt), but an increase of approximately 33% on 2009 performance.

The shipping queue at DBCT rose as high as 77 vessels during the year, resulting in average wait times in the order of 25 to 35 days. Queues of 60 to 65 vessels waiting for loading were a regular feature of the system throughout the year. In June 2010, a record monthly throughput level was obtained of 75.5Mt on an annualised basis.

## DBCT EXPANSION

DBCT nameplate port capacity reached 85mtpa following the completion of the Stage 7 expansion at the end of the 2009 financial year. As a result of the expansion, Macarthur Coal obtained additional take-or-pay capacity of 3.2mtpa which increased to 3.7mtpa from 1 July 2010.

The graph on page 32 provides an outline of Macarthur Coal's equity share of estimated port allocation based on contracted port capacity.

## RAIL TRANSPORT

In July 2009, Macarthur Coal commenced a rail haulage contract with Pacific National for up to 3.7mtpa. This contract matches Macarthur Coal's increased port capacity at DBCT and will support future growth projects. The Company continued its 7.0mtpa (100% CMJV basis) coal haulage contract with QR National throughout 2010. Macarthur shipped 5.3Mt during the year, supported by the combination of these rail contracts and the Company's surplus DBCT capacity.

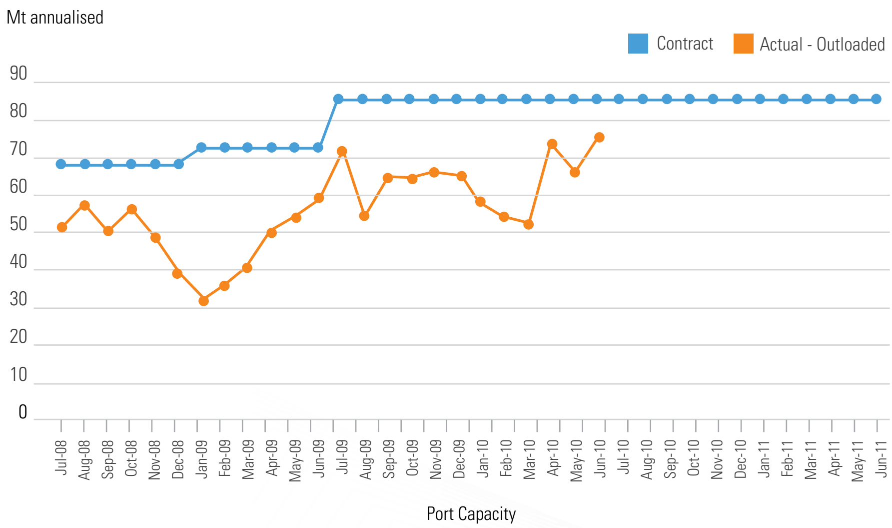
From 1 November 2010, Pacific National will commence rail haulage from the Coppabella and Moorvale mines for the Coppabella and Moorvale Joint Venture, following expiry of the current QR National contract. This contract brings Macarthur's rail haulage arrangements with Pacific National to 10.7mtpa (100% basis) at DBCT.

## NORTHERN MISSING LINK AND ABBOT POINT EXPANSION

During the year, Middlemount Coal (a joint venture between Macarthur Coal and Noble Group) completed the commercial arrangements required for both rail and port to support delivery of up to 3.0mtpa to the expanded Abbot Point Coal Terminal.

In April 2010, Middlemount Coal executed a 15 year take-or-pay contract with QR Network for track access of up to 3mtpa (effective from 1 January 2012).

Dalrymple Bay Coal Terminal - Capacity and Throughput




*Source: Macarthur Coal generated graph using data from external sources*

The rail access under the contract matches the 3mtpa Abbot Point port contract previously secured by Macarthur Coal and also commencing in 2012. In June 2010, a long-term rail haulage contract with Pacific National was executed to complement the port and track access contracts.

This track access contract resulted from the Queensland Government's endorsement of the construction of the Goonyella-Abbot Point expansion (GAPE), previously known as the Northern Missing Link. The project will connect the Goonyella rail system with the Newlands rail system and will allow coal produced in the northern Bowen Basin to be exported through an expanded Abbot Point Coal Terminal.

An additional 25mtpa of capacity at Abbot Point is expected to be completed by mid 2011, expanding the terminal to 50mtpa with matching rail capacity available once the GAPE is developed in early 2012. Further development stages may expand capacity of Abbot Point in excess of 100mtpa. Capacity from 50mtpa to approximately 100mtpa has been allocated to two other users at preferred proponent status.

### QUEENSLAND COAL INDUSTRY RAIL GROUP

In May 2010, the Queensland Coal Industry Rail Group (QCIRG) consortium, of which Macarthur Coal is a participant, made an offer to the Queensland Government to acquire the central Queensland coal track network. It would protect existing coal businesses, including Macarthur Coal, through direct ownership of the coal rail network.

Negotiations were continuing at the time of this report.

### WIGGINS ISLAND COAL EXPORT TERMINAL

During the year, Macarthur Coal continued to work closely with other potential coal producers to progress development of the Wiggins Island Coal Export Terminal project via an industry-funded delivery model. In a significant step forward for the project, in December 2009 the company established by coal producers (Wiggins Island Coal Export Terminal Pty Ltd ('WICET')) executed a framework agreement with the Queensland Government and Gladstone Ports Corporation providing the industry group with the opportunity to develop and own the new facility.

Also during December 2009, Macarthur Coal submitted an expression of interest to purchase capacity in the initial stages of the proposed Wiggins Island terminal. The requested capacity will support Macarthur Coal's southern Queensland growth prospects and projects including West Rolleston and Monto. While it is expected that initial capacity allocation for Stage 1 at the terminal will become available from the middle of 2014, capacity for Macarthur Coal's growth projects is likely to be sought in future expansion stages of the terminal.

# GOONYELLA – ABBOT POINT EXPANSION

In April 2010, the Queensland Government endorsed the construction of the Goonyella-Abbot Point expansion - a 69 kilometre rail link that will connect the Goonyella rail system with the expanded Abbot Point Coal Terminal.

This project, which was known for many years as the "Northern Missing Link", represents a major milestone for expansion of the Queensland coal industry and opens up a whole new transport corridor for Macarthur Coal.

As a result of the endorsement by the Government, in April 2010 Macarthur Coal and QR Network executed a 15 year take-or-pay contract with Middlemount Coal Pty Ltd (an incorporated joint venture between Macarthur Coal Limited and Noble Group Limited).

This contract is for track access of up to 3.0mtpa from the Middlemount Mine to Abbot Point from 1 January 2012. The 3.0mtpa rail access arrangement matches the 3.0mtpa Abbot Point port contract previously secured by Macarthur Coal. This will provide the Middlemount Mine and Macarthur Coal with access to an expanded port and provide diversification from the existing Dalrymple Bay Coal Terminal. This is a major step forward for the Middlemount Mine project and also for the local coal industry as it provides another option for customers to source coal from Queensland.

*Image courtesy of POSCO*



# CUSTOMERS AND THE COAL MARKET

## CUSTOMERS

Macarthur's low volatile Pulverised Coal Injection (LV PCI) coal is sold to the majority of the world's major steel producers.

LV PCI coal is a type of metallurgical coal used in the production of pig iron in blast furnaces. Pig iron is the basic feedstock for steelmaking. As a result, demand for steel and finished steel goods are key indicators of demand for Macarthur's LV PCI coal.

Traditionally, the Company's customers have been located in Asia (Japan, Korea, Taiwan), Europe and Brazil. In February 2009, Macarthur made its first sales of LV PCI coal to China. During the 2010 financial year, the Company built on these initial sales to establish longer term relationships with Chinese customers, which represent an attractive growth market.

Macarthur Coal entered the 2010 financial year with an increasingly optimistic demand outlook for the Company's LV PCI coal as world steel production recovered from the economic downturn of late 2008.

The Company has been able to rapidly respond and meet demand as traditional customers returned to the coal market. Combined with the strong growth in demand from China, this created a positive outlook for LV PCI coal throughout the year and into the future.

## CURRENT COAL MARKET CONDITIONS

Demand for metallurgical coal progressively improved throughout the year and the world market is expected to reach approximately 240Mt in 2010 calendar year compared to 206Mt in 2009[1] calendar year.

The improvement was stronger than expected and was driven by increasing steel production from the depressed levels experienced in 2009, particularly in China.

Demand from Asian customers, especially in Korea and India, was strong in 2010. Japan, the largest importer of Australian coal, recovered strongly on the back of increased steel exports, despite their domestic market remaining subdued. Demand from Brazil also strengthened, driven by a combination of domestic steel demand and growth in exports because of the country's competitive cost of steel production. Steel demand and production in Europe and the United States remain subdued and recovery of demand from these economies is expected to be slow.

For Macarthur Coal, the improvement in coal market conditions was most clearly demonstrated by the return of demand for LV PCI coal from traditional customers. Many Macarthur customers deferred shipments of contracted coal volumes in late 2008 and early 2009 as they wound down production in response to rapidly declining demand for finished steel goods.

Throughout the 2010 financial year, these customers have progressively returned to shipping contracted volumes. This trend also saw a consequent decline in the amount of thermal coal sold by Macarthur from 26% of total sales in 2009 to 7% during 2010 in line with increased PCI sales to China.

The combination of improving shipments to traditional customers, increasing demand from China and continuing infrastructure constraints on supply create a positive outlook for the LV PCI coal market.

## MOVE TO QUARTERLY PRICING

Up until 2009, sales contracts were typically negotiated on the basis of annual pricing. In 2010, in line with the majority of coal producers, Macarthur moved to quarterly or bi-annual contract pricing periods in 2010 in response to increasing price volatility.

## LONGER TERM MARKET CONDITIONS

There are a number of structural factors that underpin Macarthur Coal's positive longer term demand outlook for LV PCI coal.

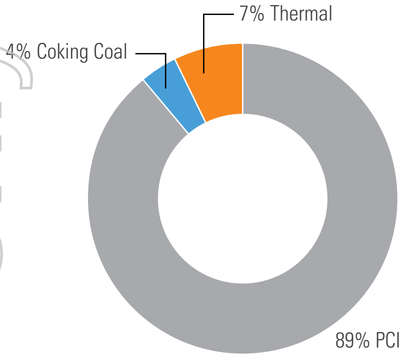
The strong growth in steel demand in recent years, driven largely by China, has created a shortage in steelmaking raw materials, notably coking coal for which there are limited resources worldwide. Increased raw material costs, as a result of tight supply, are driving steel producers to focus on cost reduction.

The world's steelmakers are currently upgrading existing blast furnaces to increase their production capacity to address growing steel demand. This creates new demand for coke that has to be fulfilled either by imports or increasing the use of PCI coal. LV PCI coal is injected directly into the blast furnace as a replacement for more expensive coke, thereby creating significant cost savings. For more information Coal and the Product Life Cycle on page 9.

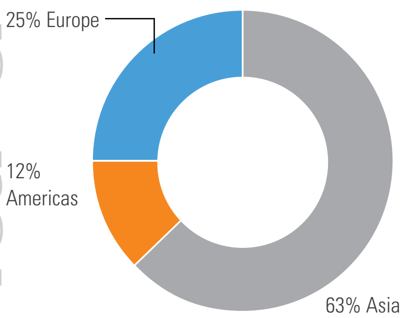
China's growth in domestic demand for metallurgical coal has resulted in a shortage of export coke. Having dominated this market up until 2008, China's exports have fallen to a fraction of the previous levels. Given this shortage, PCI coal demand is significantly enhanced as a coke replacement. This factor is emphasised by the fact that at full pig iron production, the rest of the world is structurally short of coke.

[1] *Macquarie Research*

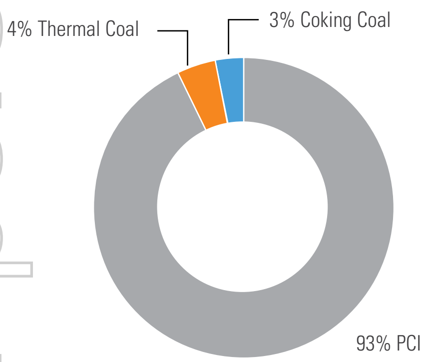
2010 SALES BY PRODUCT




2010 SALES BY MARKET




2011 EXPECTED SALES BY PRODUCT




2011 EXPECTED SALES BY MARKET

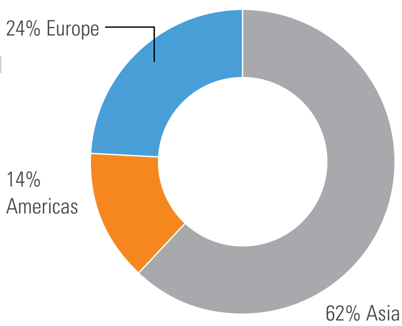



*Image courtesy of POSCO*

# WHAT IS THE DEMAND OUTLOOK FROM CHINA FOR MACARTHUR COAL'S PRODUCT?

The most significant change to the seaborne coal market in recent years has been the emergence of China as a major importer of metallurgical and thermal coal. China imported 37Mt of metallurgical coal in 2009 compared to only 3Mt in 2008 and imports are expected to exceed 40Mt in 2010. This would make China the second largest coal export market for Australia.

In the near term, as traditional buyers have returned to the metallurgical coal market and absorbed the majority of supply, imports into China may ease. Over the longer term however, it is expected that Chinese coal imports will remain at high levels based upon:

- Continued massive growth in steel demand and production, and therefore metallurgical coal demand in China
- Limitations on domestic metallurgical coal resources and development of sufficient production capacity to meet growing demand
- The ability of imported supply, especially from Australia to compete on a cost basis with domestic supply.

Nevertheless, China will remain a price sensitive buyer of metallurgical coal because of the availability of domestic supply. Imports are expected to fluctuate based on the balance of supply and demand for seaborne coal and market prices.

Queensland coal exporters such as Macarthur operate a low cost structure and produce consistently high quality product. This gives Macarthur's LV PCI coal a competitive advantage in China as long as the Company's product remains cost-competitive with China's domestic supply.

# 3

# GROWTH

# SNAPSHOT

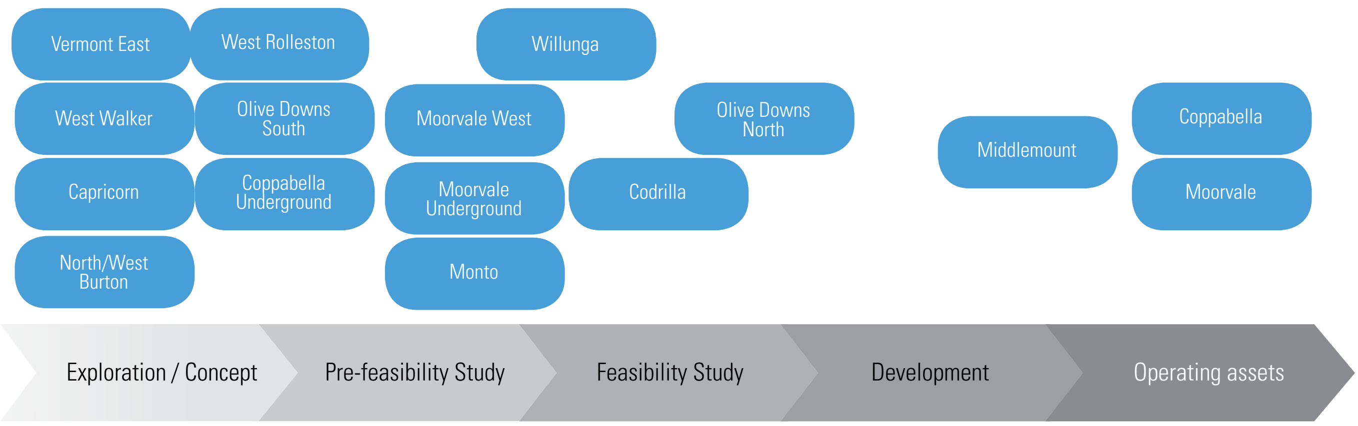
| ACHIEVEMENTS AND CHALLENGES | SECTION REFERENCE |
|---|---|
| Middlemount Mine Project | |
| Sustainable growth is an important objective for Macarthur Coal and is integral to fulfilling the vision to be an independent growth focused coal company delivering long-term shareholder value.<br>The Middlemount Mine project (an incorporated joint venture with Noble Group Limited) will be Macarthur Coal's next major operating mine, the third in the Company's portfolio. The mining lease for Middlemount Mine was granted in September 2009, paving the way for construction of the Coal Handling and Preparation Plant which is expected to be commissioned in September 2010. A major challenge faced by the Middlemount Mine project during the year was advancing designs for a dedicated rail spur line linking the mine to the Goonyella Rail System. Subject to approvals, Middlemount Coal expects construction of the rail spur line and loop to be completed by the end of the 2011 calendar year. | page 35 |
| Projects Under Evaluation | |
| To achieve a target of 9.2mtpa of sales by 2014, the Company is focused on evaluating options from the Company's tenement portfolio to develop a fourth mine project. During the year, an optimised mine plan for Olive Downs North was finalised, facilitating an extension of the life of mine for Moorvale. In addition, a feasibility study for Codrilla and a pre-feasibility study for Willunga were progressed to facilitate a decision on the fourth mine project in 2011. | page 36 |
| Exploration Prospects | |
| Exploration and evaluation expenditure for the year totalled $11.1 million. Exploration and evaluation activity was primarily focused on the Willunga and West Rolleston areas to increase understanding of the resources in those areas to enable project planning and evaluation activities to commence. Middlemount JORC resources increased by 22%. | page 40 |

## SUSTAINABLE GROWTH

Macarthur has a history of developing grassroots assets into productive and profitable producing mines. The continuous development of new organic mining operations underpins the Company's strategic objective of sustainable growth.

Macarthur has an extensive portfolio of highly prospective tenements at all stages from concept and exploration to development and operation. This portfolio will allow the Company to extend the life of the Moorvale Mine, and continue new mine development including selecting a fourth project to reach the target of doubling sales to 9.2mtpa by 2014. Macarthur Coal's growth portfolio also reduces the Company's risk profile by diversifying mining operations, coal types and infrastructure access. Successfully exploiting the portfolio helps Macarthur remain an independent coal producer and expand LV PCI coal market share and bargaining power.

## SIGNIFICANT DEVELOPMENT PIPELINE



## ALIGNING PRODUCTION WITH RAIL AND PORT ALLOCATION

Part of Macarthur Coal's sustainable growth objective is to align production with contracted port allocation through organic growth. The Company aims to achieve this by doubling sales over the five years from 2009 to 2014 to 9.2mtpa. This will involve developing the Middlemount Mine project (up to 4.0mtpa in product Stages 1 and 2 at 100%) and one other mine (up to 3.0mtpa product coal, 100% basis). The Olive Downs North satellite pit will also be brought on line after 2014 to extend the life of the Moorvale Mine.

The graph to the right illustrates Macarthur Coal's contracted port capacity at Dalrymple Bay Coal Terminal (DBCT) and Abbot Point through to 2018, with the key points being:

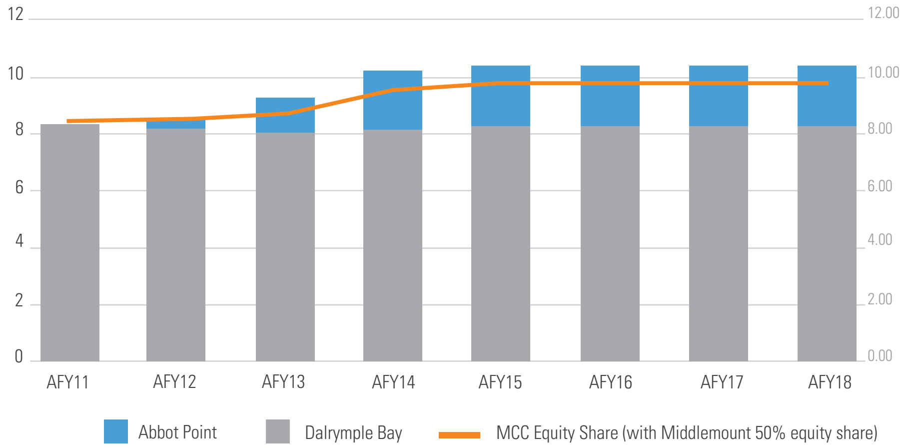
- Following completion of the contract ramp up, Macarthur Coal's long-term port capacity at DBCT is 8.2mtpa (equity share).
- The existing rail haulage contract with Pacific National matches the increase in DBCT port capacity of 3.7mtpa (100%).
- Abbot Point allocation of up to 3.0mtpa (100%) is matched to rail access after completion of the Goonyella-Abbot Point expansion in 2012 and will be used by Middlemount Coal Pty Ltd with the Company's share at 70%.
- The existing rail contract with Pacific National was secured during 2010 to rail up to 3.7mtpa to match the increased Abbot Point port allocation.

See page 26 for more information on infrastructure.

The project tenement portfolio is outlined below, reflecting over 1.6 billion (100%) tonnes in JORC Resources as at 30 June 2010. See page 33 for the JORC Resources and Reserves Table and Competent Persons' Statements.

Macarthur Coal equity share of port contract (mtpa)

Bars include MCC ownership of Middlemount at 70%. Line includes MCC ownership of Middlemount at 50% from AFY13 onwards.




DBCT equity share assumes partial allocation of the 3.7mtpa port contract to related joint ventures and the fourth mine project to 2014. From 2015, equity share is assumed to be 5.1mtpa for CMJV plus 3.1mtpa for Macarthur Coal's equity share (85%) of the fourth mine project only.

| PROGRESS STAGE | PROJECT | PROJECT TYPE | COAL TYPE | POTENTIAL PORT |
|---|---|---|---|---|
| Development | Middlemount | Greenfield | Metallurgical/thermal coal | Abbot Point |
| Evaluation – Open-cut | Codrilla | Greenfield | Metallurgical/thermal coal | DBCT |
| | Olive Downs North | Brownfield Expansion | Metallurgical/thermal coal | DBCT |
| | Vermont East/Willunga | Exploration and Evaluation | Metallurgical/thermal coal | DBCT or Wiggins Island |
| | Monto | Exploration and Evaluation | Thermal coal | Wiggins Island |
| Evaluation – Underground | Moorvale Underground | Brownfield Expansion | Metallurgical coal | DBCT |
| | Moorvale West | Exploration and Evaluation | Metallurgical coal | DBCT/ Abbot Point/ Wiggins Island |
| Exploration – Underground | Coppabella Underground | Brownfield Expansion | Metallurgical coal | DBCT |
| | North/West Burton | Tenement Portfolio | Metallurgical/thermal coal | DBCT or Abbot Point |
| Exploration – Open-cut | West Rolleston | Exploration and Evaluation | Thermal coal | Wiggins Island |
| | Olive Downs South | Exploration and Evaluation | Metallurgical/thermal coal | DBCT or Wiggins Island |
| | West Walker | Tenement Portfolio | Metallurgical coal | DBCT |
| | Capricorn | Tenement Portfolio | Metallurgical/thermal coal | Wiggins Island |

# RESOURCES AND RESERVES

| RESOURCES AND RESERVES STATEMENT (100% Project Basis) as at 30 June 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Resources (Mt) | | | | Recoverable Coal Reserves (Mt) | | | Competent Person (Reference) |
| | Measured | Indicated | Inferred | Total | Proved Reserve | Probable Reserve | Total | |
| Coppabella | 59.7 | 121.6 | 16.5 | 197.8 | 41.0 | 22.0 | 63.0 | **1,2** |
| Moorvale Open-cut | 31.0 | 2.7 | 0.3 | 34.0 | 31.0 | 2.0 | 33.0 | **1,2** |
| Moorvale Underground | 35.7 | 34.3 | 13.9 | 83.9 | 6.5 | 8.7 | 15.2 | **1,7** |
| Middlemount | 89.3 | 31.5 | 1.8 | 122.6 | 29.0 | 28.0 | 57.0 | **1,6** |
| Moorvale West | 100.3 | 31.6 | 14.0 | 145.9 | - | - | - | **3,4** |
| Olive Downs North | 30.6 | 35.3 | 61.1 | 127.0 | - | 12.5 | 12.5 | **3,4,5** |
| Olive Downs South | 25.8 | 18.0 | 228.3 | 272.1 | - | - | - | **3,4,5** |
| Codrilla | 42.8 | 12.7 | 24.0 | 79.5 | - | - | - | **3,4** |
| West Rolleston | 43.6 | 15.5 | 21.0 | 80.1 | - | - | - | **3,4** |
| Vermont East/Willunga | - | - | 164.6 | 164.6 | - | - | - | **3,4** |
| Monto | 22.4 | 50.0 | 256.0 | 328.4 | - | - | - | **8** |
| **Total** | **481.2** | **353.2** | **801.5** | **1,635.9** | **107.5** | **73.2** | **180.7** | |

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. Monto was re-modeled in 2009 and Coal Resources now comply with the 2004 edition of the JORC Code resulting in a reduction in Coal Resources reported.

All Reserves reported in the above table are components of the reported Resources. Moorvale Underground Coal Reserves are based and reported on JORC Coal Resources as at June 2009.

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

The information in this report that relates to Coal Resources at Coppabella and Moorvale mines is derived from geological modelling by Mal Blaik 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 and Codrilla, is derived from geological modelling by Greg Jones BSc (Hons) MAusIMM, MAIG **(3)** from data compiled by Rees Thomas, which updates prior information compiled by Lance Grimstone BSc (Hons) (Geol), Grad Dipl Mngt, FAus IMM, MMICA **(4)**. Greg Jones is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596). Rees Thomas is Chief Geologist for Macarthur Coal Limited. Lance Grimstone is employed by Lance Grimstone & Associates (Consulting) Pty Ltd (ABN 23 114 977 829).

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

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

The information in this report that relates to Coal Resources at Monto is based on information verified by Greg Jones BSc (Hons) MAusIMM, MAIG **(8)**. Greg Jones is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596).

The information in this report that relates to Coal Resources at Middlemount is derived from geological modelling by Greg Jones BSc (Hons) MAusIMM, MAIG **(6)** from data compiled by Rees Thomas. Greg Jones is employed by JB Mining Services Pty Ltd (ABN 99 050 708 596). Rees Thomas is Chief Geologist for Macarthur Coal Limited.

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 **(7)**. Jack Steenekamp is employed by Mining Consultancy Services (Australia) Pty Ltd.

Mark Bryant, Mal Blaik, Greg Jones, Lance Grimstone, Alwyn Hyde-Page 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, Alwyn Hyde-Page 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.


SGS

# MIDDLEMOUNT MINE DEVELOPMENT

THE MIDDLEMOUNT MINE IS POSITIONED TO BE THE NEXT OPERATING MINE IN MACARTHUR COAL'S PROJECT PORTFOLIO.

THE SITE IS APPROXIMATELY 6KMS SOUTH OF THE TOWNSHIP OF MIDDLEMOUNT AND 120KMS SOUTH OF COPPABELLA MINE.

MIDDLEMOUNT HAS PRODUCTION APPROVAL FOR 1.8MTPA ROM WITH POTENTIAL TO EXPAND TO 5.4MTPA ROM. THIS DEVELOPMENT HELPS UNDERPIN MACARTHUR COAL'S STRATEGY TO DOUBLE PRODUCTION OVER FIVE YEARS TO ACHIEVE SALES OF 9.2MTPA BY 2014.

## PROJECT HISTORY

Macarthur Coal acquired its interest in the Middlemount Mine project in January 2008 through the purchase of Custom Mining Limited. The principal asset purchased was a 74.66% interest in the Middlemount Mine project through Middlemount Coal Pty Ltd ("Middlemount Coal').

The Noble Group is Macarthur Coal's joint venture partner in Middlemount Coal. Noble currently owns 27.52% of Middlemount Coal after a transfer of shares equivalent to 2.18% of the company was made to Noble by Macarthur Coal in April 2010 for $7.0 million. Noble retains rights to increase its stake in the joint venture to 30%. Noble also has an option to acquire an additional 20% equity in Middlemount Coal for $100 million up to 18 months after construction of the Coal Handling and Preparation Plant (CHPP) is completed. If Noble elects to exercise its option, Macarthur Coal and Noble will each hold 50% of the project.

Gloucester Coal Ltd announced its intention to acquire Noble Group Limited's interests in the Middlemount Mine project in July 2010, subject to shareholder approval which is expected to be sought in late 2010 calendar year.

## MINING OPERATIONS

A Mining Lease was granted to Middlemount Coal in September 2009 for a mine with production capacity of 1.8mtpa ROM. Construction of the CHPP and other mine infrastructure (dams, roads and other earthworks) commenced shortly after the lease was granted and is expected to be commissioned in September 2010.

The plant was designed and supplied by Sedgman Ltd which has also been contracted to operate the plant once it is commissioned.

A bulk sample pit was established at Middlemount at the end of 2007 to help conduct detailed investigations of coal quality at the mine. A total of 200,000 tonnes of ROM coal was mined from the bulk sample pit during 2008, with 150,000 tonnes of this coal transported by road to the Coppabella Mine for trial processing and sale.

## POWER AND WATER

In 2010 Middlemount Mine, in conjunction with Ergon, completed an options study for the delivery of a dedicated power feed to the site. A permanent power connection to the mine will be established in the first half of 2012, with an upgrade being completed in the second half of 2014. A diesel power station has been established to power the mine prior to the establishment of a permanent connection.

Middlemount has been liaising with other producers in the area for access to infrastructure to supply water in the short term. Middlemount had previously secured 1,831ML of water from the McKenzie river system. Sunwater was engaged to complete an options study for the delivery of a standalone delivery system to the mine. It is expected that a standalone pipeline will not be required for up to three years.

There were no environmental issues at Middlemount Coal during the year despite a prolonged wet season. In 2010, $14.5 million was spent on environmental measures including a mine flood levee, sedimentation and other dams.

The site had no Lost Time Injuries in 2010 and no major injuries since infrastructure construction commenced in October 2009. For more information see Health and Safety on page 46.

Middlemount Coal has made a development application for the construction of a dedicated rail spur line and loop linking the mine to the Goonyella Rail System. Construction of the rail spur line and loop will allow coal from Middlemount to be transported to Dalrymple Bay Coal Terminal and Abbot Point Coal Terminal for export. The public comment and review period for the application closed in July 2010 and advanced design and detailed engineering of the rail loop is complete. Middlemount Coal has appointed an alliance to design and construct a dedicated rail loop to connect the mine to the expanded rail network. Subject to approvals, Middlemount Coal expects construction of the rail spur line and loop to be completed by the end of the 2011 calendar year.

## STAGE 2 DEVELOPMENT

GIVEN THE SIZE AND QUALITY OF THE COAL RESOURCE AT MIDDLEMOUNT, SIGNIFICANT WORK HAS BEEN UNDERTAKEN TO ASSESS FUTURE EXPANSION OF PRODUCTION UP TO A POTENTIAL TOTAL OF 5.4MTPA ROM COAL.

Increasing Middlemount production above 1.8mtpa ROM coal will require an Environmental Impact Study (EIS) to assess potential environmental impacts. An EIS will be submitted in September 2010 followed by an Environmental Authority application which will be subject to a public comment and review period in the second half of 2011. As a result, any increase in production is not expected to occur until early 2013 calendar year.

An increase in production would involve a progressive ramp up requiring additional capital investment. The CHPP has been designed so that it can be easily expanded from its current capacity of 2.6mtpa up to 5.4mtpa ROM coal.

# PROJECTS UNDER EVALUATION

THE COMPANY HAS A NUMBER OF PROJECTS UNDER EVALUATION TO IDENTIFY AND PRIORITISE THOSE SUITABLE FOR DEVELOPMENT INTO OPERATING MINES. THE ECONOMIC AND TECHNICAL FEASIBILITY OF TRANSITIONING THESE PROJECTS INTO DEVELOPMENT AND OPERATION ARE ASSESSED IN THE EVALUATION PHASE.

See the Map on page 2 for the location of the following projects.

## CODRILLA

The Codrilla deposit is located 30 kilometres south-east of the existing Moorvale Mine. A project feasibility study for Codrilla is expected to be completed by December 2010. Subject to satisfactory outcomes from the study and necessary regulatory approvals, the project could commence operations in 2012 utilising the Company's increasing port capacity at Dalrymple Bay Coal Terminal (DBCT).

The concept study for development of the Codrilla deposit proposed an open-cut truck/shovel operation at a nominal 4.0mtpa ROM (3.2mtpa LV PCI coal). ROM coal would be washed in a new coal handling and preparation plant (CHPP) to be built at Codrilla with product coal trucked to Moorvale Mine for rail loadout.

A draft Environmental Impact Statement (EIS) for Codrilla is expected to be submitted for public comment by October 2010.

### CODRILLA

| | |
|---|---|
| Macarthur Coal's ownership | 85% |
| Other ownership interests | 15% CITIC |
| Tenements | EPC 676 |
| Location | The Codrilla deposit is located 30km south east of the existing Moorvale Mine. The resource is dissected by the Fitzroy Development Road (Beef Road) approximately 25km south of its junction with the Peak Downs Highway in Central Queensland |
| Port | Dalrymple Bay Coal Terminal |
| Coal types | 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) |
| Resource status | A synclinal U shaped deposit to 150 metres depth<br>These coal resources adjoin another $28km^2$ of exploration target area to 450 metres depth – outlined by 78 drill sites (some cored) and 26.5 kilometres of seismic coverage in which coal is known to occur in a 7 metre thick seam thought to be the Vermont Upper Seam<br>Refer to Resources and Reserves Table on page 33 |
| Project status | A greenfield project<br>A project feasibility study is expected to be completed by December 2010 |
| Activities undertaken in 2010 | An Environmental Impact Study commenced in July 2009 and has been progressed throughout 2010. It is expected the findings of this study will be released for public comment by October 2010.<br>Environmental baseline studies and modelling for the EIS<br>Infrastructure design studies<br>Mine planning studies<br>CHPP design evaluation |
| Activities planned for 2011 | Feasibility study completed by December 2010<br>Mining Lease Application lodged by June 2011 |

## OLIVE DOWNS NORTH

The Olive Downs North deposit is located 15 kilometres south of the Moorvale Mine. It will be a small scale open-cut satellite mining operation to extend the life of the Moorvale Mine and will use existing infrastructure.

The potential for additional resources north of the existing mining lease area is also under investigation and open-cut JORC Resources south of the mining lease area have already been proven.

The Olive Downs North mining lease was granted in May 2009. The resource is predominantly a LV PCI coal with potential for a proportion of coking coal.

An optimised mine plan incorporating Moorvale and Olive Downs North resources was completed during the financial year. The plan includes a detailed design of the haul road from Olive Downs North to the Moorvale CHPP.

Olive Downs North has been classified as mining property and development in the financial statements. This is based on the fact that feasibility and commercial viability of the project has been demonstrated and it will be operated as a satellite pit to the Moorvale Mine operations.

## VERMONT EAST/WILLUNGA

Vermont East and Willunga are adjacent prospects located 40 kilometres south of Macarthur Coal's Moorvale Mine.

A pre-feasibility study for a 4.0mtpa ROM open-cut mine at Willunga is due for completion in the first half of 2011. This will allow Vermont East/Willunga to be considered as a potential development alternative to the Codrilla project or for future development post 2014.

Extensive exploration of the Willunga area was undertaken during the year as a precursor to the pre-feasibility study. Three drill rigs were in operation on the Willunga project during the second half of 2010.

## OLIVE DOWNS NORTH

| | |
|---|---|
| Macarthur Coal's ownership | 73.3% |
| Other ownership interests | 7% CITIC Resources Australia Pty Ltd<br>7% Marubeni Corporation<br>7% Sojitz Corporation<br>3.7% JFE Shoji Trade Corporation<br>2% NS Trading Co Ltd |
| Tenements | EPC 649 (north of the Isaac River), MLs 70354 and 70355 |
| Location | 15km south of Moorvale Mine |
| Port | DBCT |
| Coal types | Predominantly LV PCI coal and some coking coal |
| Resource status | The initial probable reserve within ML 70354 and ML 70355 is 12.5Mt.<br>Refer to Resources and Reserves Table on page 33 |
| Manager | Macarthur Coal (C&M Management) Pty Ltd on behalf of the Coppabella and Moorvale Joint Venture |
| Mining operations | The coal will be processed at the Moorvale CHPP operated by Sedgman Ltd |
| Mining commencement date | Mining will commence post 2014 and is dependent on economics and market demand |
| Activities undertaken in 2010 | Additional exploration activities continued in 2010 to further refine the current open-cut resource and the extent of resources north of the existing mining lease<br>Future mine planning will focus on the integration of production with Moorvale operations to optimise potential coal blending opportunities and extend Moorvale's open-cut mine life |

## VERMONT EAST/WILLUNGA

| | |
|---|---|
| Macarthur Coal's ownership | 85% |
| Other ownership interests | 15% CITIC |
| Tenements | EPCs 850, 721 and 688 |
| Location | 40km south of the Moorvale Mine<br>The Willunga and Vermont East prospects are geologically distinct grassroots prospects at the southern end of the Coxendean Sub-basin<br>The prospects are separated by the Isaac River and lie either side of a major fault system |
| Port | DBCT |
| Coal types | Initial results for Vermont East indicate the possible presence of a medium volatile coking coal as well as thermal and PCI coal. The Willunga exploration area is anticipated to produce LV PCI and thermal coal |
| Resource status | Vermont East adjoins the Willunga prospect and contains a number of fault repeated crop zones of the Rangal Coal Measures.<br>Willunga is an S-shaped deposit and combined with Vermont East covers a target area of over 110km$^2$, with open cut potential<br>Refer to the Resources and Reserves Table on page 33 |
| Project status | The pre-feasibility study for Willunga is due for completion in late 2010. If a decision to proceed with the project were made, operations could commence in 2014, subject to EIS and other regulatory approvals. Alternatively, the project could be developed post 2014 with additional port capacity at Wiggins Island |
| Activities undertaken in 2010 | Extensive exploration was undertaken during the year with the primary focus on the Willunga deposit. The pre-feasibility study commenced which involved baseline environmental assessment, infrastructure design studies and mine planning |



## MONTO

During 2010, Macarthur Coal updated the pre-feasibility study for the Monto Stage Two operation (up to 10mtpa). The Company continues to assess overall project economics and development options particularly the capital costs of rail transport to the Port of Gladstone. The Monto project has submitted an expression of interest for contract port capacity at the proposed Wiggins Island Terminal at the Port of Gladstone.

The resource estimate for Monto was revised in November 2009 from 519 million tonnes (Mt) to 328Mt. This revision was due to changes in the Australian guidelines for estimating JORC compliant coal resources since the original estimate was made in February 2002. While the total estimate has been revised downwards, the JORC resources within the proposed mine areas remain unchanged at 150Mt . A detailed exploration programme has commenced to obtain a greater understanding of the total resource and a mineral development licence was lodged in July 2010. Various mine planning scenarios were evaluated during 2010 to determine the optimal level of production.

## MOORVALE UNDERGROUND

Development options for the Moorvale Underground project are currently being assessed as part of the overall coal production and blending optimisation study being undertaken for the Moorvale Mine and Olive Downs North project areas. This assessment continued throughout 2010 utilising the pre-feasibility study completed during the March 2009 quarter. Moorvale Underground will extend the existing mine life of the Moorvale Mine and utilise existing CHPP infrastructure.

### MONTO

| | |
|---|---|
| Macarthur Coal's ownership | 41% |
| Other ownership interests | 10% Noble (incorporated joint venture with Macarthur Coal)<br>49% minority joint venture participants |
| Tenements | ML 80101 and EPCs 613 and 683 and MDL 445 (Application) |
| Location | 120km south-west of Gladstone within the Mulgildie Coal Measures |
| Port | Wiggins Island Coal Terminal |
| Coal type | Thermal coal |
| Resource status | Refer to the Resources and Reserves Table on page 33 |
| Project status | Exploration and evaluation prospect<br>A mining lease was granted in 2005 for production of up to 1.5mtpa ROM coal (Stage 1). Feasibility studies of the Stage 1 development of the project were undertaken in late 2008 with rail transportation being the biggest cost.<br>Stage 2 – open cut coal production of up to 10mtpa saleable coal<br>A Mineral Development Licence Application was submitted in July 2010 over the resource area to enable the Joint Venture to continue to progress evaluation of project feasibility |
| Activities undertaken in 2010 | The pre-feasibility study for Stage 2 was updated and mine planning options undertaken |

### MOORVALE UNDERGROUND

| | |
|---|---|
| Macarthur Coal's ownership | 73.3% |
| Other ownership interests | 7% CITIC Resources Australia Pty Ltd<br>7% Marubeni Corporation<br>7% Sojitz Corporation<br>3.7% JFE Shoji Trade Corporation<br>2% NS Trading Co Ltd |
| Tenements | MLs 70290 and 70291 |
| Location | Immediately west of Moorvale Mine |
| Port | DBCT |
| Coal types | LV PCI coal and coking coal |
| Resource status | Refer to the Resources and Reserves Table on page 33 |
| Project status | Brownfield project<br>The Moorvale Underground project is an extension of the opencut life of the Moorvale Mine<br>The mine will be bord and pillar operation with direct entry from the high wall of the open-cut mine. Production capacity is estimated at up to 1.0mtpa ROM coal<br>The mining horizon selected from the study was the lower working section of the seam which enables a higher coking coal fraction to be produced from ROM coal |

A bord and pillar operation of up to 1.0mtpa ROM coal is envisaged, given the results of three dimensional seismic and faulting of the resource. The lower portion of the seam could be targeted with underground mining equipment, resulting in a greater proportion of coking coal being mined.

## MOORVALE WEST

The Company is reviewing options for development of this project. A concept level bord and pillar mining study is being explored for economic viability as an alternative to the existing assumed longwall methodology. Pending favourable results, a pre-feasibility study will be commissioned to assess development options for this project.

There is potential for ROM coal to be hauled and processed for Moorvale West using Moorvale Mine infrastructure. This project area is located close to new underground operations being established by other mining companies. Knowledge of underground mining conditions will be gained from the progress of these nearby operations and used to analyse potential development opportunities.

## MOORVALE WEST

| | |
|---|---|
| Macarthur Coal's ownership | 90% |
| Other ownership interests | 10% CITIC |
| Tenements | EPC 680 |
| Location | The Moorvale West deposit is located approximately 8km south west of the existing Moorvale Mine and 15km south of the Coppabella township |
| Port | The deposit is immediately adjacent to the Peak Downs railway line on freehold land. Access is via sealed and unsealed council roads from the Peak Downs Highway and by property tracks.<br>The rail distance to DBCT in Mackay is approximately 160km and coal could potentially be transported to DBCT, Abbot Point or Wiggins Island |
| Coal types | LV PCI coal and coking coal |
| Resource status | Refer to the Resources and Reserves Table on page 33 |
| Project status | Exploration and evaluation phase for underground bord and pillar prospect<br>The seams outcrop next to the Peak Downs rail line affords drift entry and access to some 3.2Mt of coal at less than 100m depth |

# EXPLORATION PROSPECTS

## EXPLORATION STRATEGY

THE COMPANY IS COMMITTED TO DEVELOPING NEW PROJECTS TO EXPAND PRODUCTION, SUPPORTED BY A CONTINUED FOCUS ON EXPLORATION.

Macarthur Coal's strategic objective in relation to exploration is to establish a long term supply of development projects and ten years of mine life for operations. The Company's approach is based on generating maximum value for shareholders and incorporates exploration, evaluation and development.

The Company invested $11.1 million in exploration activities in 2010 and has expenditure of $18.8 million planned for 2011.

An overview of exploration prospects is provided in this section of the report.

## COPPABELLA UNDERGROUND

| | |
|---|---|
| Macarthur Coal's ownership | 73.3% |
| Other ownership interests | 7% CITIC Resources Australia Pty Ltd<br>7% Marubeni Corporation<br>7% Sojitz Corporation<br>3.7% JFE Shoji Trade Corporation<br>2% NS Trading Co Ltd |
| Tenements | MLs 70164, 70236, EPC 531<br>MLAs 70384, 70385, 70386, 70387 |
| Location | Southwest of Mackay and to the north of the existing Coppabella open-cut mine down dip of the expected final highwall position, at depths in excess of the current economic limits of open-cut mining |
| Port | DBCT |
| Coal type | LV PCI coal |
| Resources and Reserves status | Faulting potentially restricts layout and will govern the appropriate mining methodology<br>Once 3D seismic surveys, drilling and analysis work are carried out, a pre-feasibility study will examine the potential for establishing an underground mine<br>Refer to Resources and Reserves Table on page 33 |
| Project status | A brownfields prospect with a draft concept study completed<br>2D seismic data extending north of Creek Pit at Coppabella and down-dip from BHP South Walker Creek Mine for approximately 20km, has indicated potentially large shallow underground mining areas for further targeted exploration |
| Activities undertaken in 2010 | Technical studies were undertaken during 2010 to identify targeted areas for future exploration and to enable better evaluation of project economics |
| Activities planned for 2011 | Determine target exploration areas within the area north of the Coppabella mining leases |

## NORTH/WEST BURTON

| | |
|---|---|
| Macarthur Coal's ownership | 65% |
| Other ownership interests | 10% CITIC<br>25% Bowen Basin Exploration |
| Tenements | EPCs 682, 708, 1115 and 836 |
| Location | 50km north-west of Coppabella Mine, west and north of Burton Mine and east of North Goonyella Mine |
| Port | Abbot Point Coal Terminal or DBCT |
| Coal types | From the coal types at the nearby Burton Mine and other adjacent projects it is anticipated that the North/West Burton prospect may be a source of low to medium volatile coking coal, PCI coal and thermal coal in the Rangal Coal Measures |
| Resources status | Follow up exploration of shallow seismic targets completed with no economic resources identified thus far |
| Project status | The objective for ongoing exploration will be the determination of any potential underground resource |
| Activities planned for 2011 | Low-scale exploration drilling programme will be undertaken to ascertain the underground resource potential and test other potential target areas |

## WEST ROLLESTON

| | |
|---|---|
| Macarthur Coal's ownership | 90% |
| Other ownership interests | 10% CITIC |
| Tenements | EPCs 786, 781, 833, 856, 871 and 896 |
| Location | 40km south of Springsure in central Queensland and 25km west of Rolleston Mine |
| Port | Wiggins Island Expansion (post 2014 in Stage Two) |
| Coal types | Thermal coal |
| Resources status | JORC resource of 80Mt previously reported for Freitag Creek (EPC 786). Potential open-cut thermal coal resource identified along strike from EPC 786 into EPCs 871 and 896. No additional JORC Resource estimates.<br>Refer to Resources and Reserves Table on page 33 |
| Project status | A grassroots prospect that has progressed to the preliminary mine planning stage for EPC 786. A draft concept study was completed for the Freitag Creek JORC Resource (EPC786) in February 2005 |
| Activities undertaken in 2010 | West Rolleston was a major focus of exploration activity during 2010 with a substantial exploration drilling programme undertaken on EPCs 871 and 896 targeting thermal coal open-cut resources identified from 2D seismic and scout drilling. This activity was impacted by wet weather |
| Activities planned for 2011 | Completion of large scale exploration drilling programme to allow for full concept study to be completed to identify any development potential. Continued exploration in southern most tenements to determine lateral extent of identified coal resources |

## WEST WALKER

| | |
|---|---|
| Macarthur Coal's ownership | 85% |
| Other ownership interests | 15% CITIC |
| Tenements | EPCs 657, 666, 757 and 712 |
| Location | Adjoining Coppabella Mine tenements to the north |
| Port | DBCT |
| Coal types | LV PCI coal similar in quality to the LV PCI coal at Coppabella Mine |
| Resource status | This prospect has an elongated target area of 36km$^2$. While not a highly prospective target, opportunity exists for potential fault repeats |
| Project status | While there are no JORC Resources, drilling has outlined the potential for PCI coal similar to that at Coppabella and South Walker Creek mines at depths suitable for underground mining. West Walker is still a relatively low priority prospect area due to it being an underground resource |
| Activities planned for 2011 | An evaluation study completed during 2009 provided information for slim-core and open-hole sites to be selected to establish a potential underground JORC Resource along strike from EPC 531. Drilling activities will be undertaken in 2011 |



## CAPRICORN

| | |
|---|---|
| Macarthur Coal's ownership | 85% |
| Other ownership interests | 15% CITIC |
| Tenements | EPC 769 |
| Location | North-east of the town of Dingo |
| Port | Wiggins Island (post 2014 Stage Two) |
| Coal types | It is inferred from the coal type at Yarrabee Mine that the Capricorn prospect may be a source of semi-anthracite which can be used as either a thermal or a PCI coal |
| Resource status | Coal occurrences 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$^2$ |
| Project status | Coal occurs adjacent to the Blackwater to Gladstone rail line with the Company targeting areas of lesser structural disturbance. Coal seam depths may prove suitable for both open-cut and/or underground extraction |
| Activities undertaken in 2010 | Capricorn is an early stage exploration grassroots prospect. A number of areas have been identified for further investigation through exploration drilling and possible two dimensional seismic surveys |
| Activities planned for 2011 | Drilling will re-commence in 2011 |

## OLIVE DOWNS SOUTH

| | |
|---|---|
| Macarthur Coal's ownership | 90% |
| Other ownership interests | 10% CITIC |
| Tenements | EPC 649 (south of the Isaac River), part of EPCs 676, 721 and 850 |
| Location | 25km south of Moorvale Mine |
| Port | DBCT or Wiggins Island |
| Coal types | Coking coal, LV PCI coal and high energy thermal coal |
| Resource status | A grassroots prospect with over 200Mt of JORC Resources along strike from the existing Olive Downs Mining Lease area. Refer to the Resources and Reserves Table on page 33 |
| Project status | Olive Downs South geological modelling extended along strike to the south into Vermont East has indicated the economic potential for both open-cut and predominantly underground resources |
| Activities planned for 2011 | The northernmost area of this prospect will be the focus of an exploration drilling programme in early 2011 in order to upgrade resource status (JORC) and aid in evaluation studies |

# 4 SUSTAINABILITY

# SNAPSHOT

| ACHIEVEMENTS AND CHALLENGES | SECTION REFERENCE |
|---|---|
| Health and Safety | |
| Providing a safe working environment for Macarthur Coal's people is the cornerstone of the Company's operational excellence objective. There was an overall improvement in safety performance during the year with the Coppabella Mine's safety record being better than it has ever been in the mine's history and well below the industry average. Safety performance at Moorvale Mine, whilst remaining below the industry average, was not as good as it was in 2009, reinforcing that the Company needs to remain vigilant about safety every day. | page 46 |
| People | |
| Macarthur Coal's turnover significantly improved in 2010, attributed to an increased focus on retaining talent and supported by external market conditions which contributed to reduced turnover across the industry. Despite the global financial crisis, the Company remained committed to investing in learning and development for its people and offered a number of professional development and training programmes during the year. | page 48 |
| Stakeholder Engagement | |
| Frequent and pro-active stakeholder engagement activities were undertaken during 2010. Shareholders and staff were at the forefront of the Company's stakeholder engagement activities in direct response to the period of intense corporate activity in the second half of 2010. The activity was fast paced and often complex and the Company was committed to communicating with stakeholders in a timely and balanced fashion during this time. | page 52 |
| Community Support | |
| Macarthur Coal has a history of supporting the communities in which it operates and continued this support during the year. The Company invested in the training and development of future employees in the resources sector and provided financial support to the Queensland Minerals and Energy Academy, and to The University of Queensland Mining Engineer Scholarships Programme. The Company continued the Shares for Schools Programme, financially supporting a range of Queensland high schools. The Company also supported a number of community programmes. | page 54 |
| Environmental Responsibility | |
| More stringent water management requirements were introduced by the Department of Environment and Resource Management in December 2009 and remain an important focus for the Company. Although water management plans were developed and capital expenditure planned for water management infrastructure, the wet season at the commencement of 2010 saw significant rainfall at both the Coppabella and Moorvale Mines resulting in water discharges from both sites incurring penalty infringement notices (PIN). Each PIN carried a fine of $2,000. Further capital expenditure is planned during 2011 to manage the new water discharge conditions and ensure good environmental performance at both mine sites. | page 56 |
| Management of Carbon Emissions | |
| In 2010, Macarthur progressed its Carbon Action Plan and developed abatement strategies to achieve reductions in energy usage and greenhouse gas emissions. The Company also implemented several energy efficiency initiatives aimed at reducing emissions and energy, developed an Energy Management Policy to formalise the Company's approach to energy efficiency, and met all reporting obligations under the National Greenhouse and Energy Report Act and the Energy Efficiency Opportunities Act. | page 59 |

# SUSTAINABILITY COMMITMENT AND GOVERNANCE

## COMMUNITY DEBATE CONTINUES ABOUT THE SUSTAINABILITY OF THE COAL INDUSTRY PARTICULARLY IN THE CONTEXT OF ADDRESSING GLOBAL CLIMATE CHANGE.

Coal mining makes a significant contribution to economic development which contributes to wealth and living standards in Queensland and Australia through investment, employment creation, government revenue and Australian export income. More information on the economic value generated by the Company is located on page 55.

Macarthur Coal is committed to developing its coal mining resources in a sustainable manner to maximise economic and social benefits. The Company is addressing environmental and social impacts. During 2010, Macarthur Coal progressed the development and implementation of sustainability systems and processes to achieve these aims.

Macarthur Coal's corporate sustainability programme has five main elements:

- working to create wealth for shareholders
- respecting, supporting, encouraging and engaging employees by ensuring a safe workplace and supportive culture
- considering all aspects of the environment in the planning, development and operational phases of activities and implementing environmentally responsible practices and procedures wherever possible
- building, maintaining and strengthening relationships with the communities which host the operations
- communicating effectively with a broad range of stakeholders.

Macarthur Coal has a Carbon and Environment Committee comprising operational, marketing, legal, finance and human resource management representatives. The Committee is involved in developing the Company's sustainability strategy and supporting systems and processes.

Indicators for each of the Company's key sustainability issues are identified by the Committee and these provide the basis to measure Macarthur Coal's sustainability performance.

A copy of Macarthur Coal's Sustainability Statement of Intent can be found on the Company's website:
**www.macarthurcoal.com.au**



# HEALTH AND SAFETY

## VALUING SAFE PEOPLE AND PRACTICES

Providing a safe working environment for employees is critical at Macarthur Coal and is central to the Company's performance.

Macarthur Coal provides training, equipment, resources and structure to create the safest possible work environment for employees. Building a culture of safety awareness is key to continuous improvement against targets and industry averages.

The Company measures its safety performance through the total recordable injury frequency rate (TRIFR). This is the most important safety benchmark within the mining sector and captures all lost time, disabling and medical treatment injuries incurred throughout the business. As a measurement tool, the TRIFR gives a clear view of the actual safety performance of the Company and brings reporting in line with best practice in the mining industry.

Macarthur Coal has an extensive health monitoring programme that helps employees improve their health and wellbeing. Each employee is eligible for reimbursement of up to $1,500 each year for gym memberships or other activities that increase their health and wellbeing. As part of this process Coppabella is delivering a 12 month health programme to be run on site. This will run in conjuction with programmes being facilitated at the Terowie accommodation village, a new accommodation village opened during the year for employees.

In 2010, the Company's health programme was reviewed and several additional health risks were added to supplement the noise and dust risk profile including vibration monitoring, lighting and asbestos. Macarthur Coal also provided a remedial deep tissue therapist at Terowie accommodation village once a fortnight to assist in the management of soft tissue injuries and prevent further injury to employees.

In 2010, the Coppabella Mine started voluntary testing for obstructive sleep apnoea to help employees who suffer from the condition (see case study on page 47). The Company also provides flu shots, skin checks, health assessments and an Employee Assistance Program with Centacare.

This year the skin checks process diagnosed several employees with melanoma type skin conditions and they were referred for treatment to their medical practitioner.

The Company conducts regular drug and alcohol checks on employees and contractors. In 2010 8,453 random checks were completed with 71 breaches identified. In all cases, the breach was discussed with the employee and followed by a corrective action.

## 2010 PERFORMANCE

Macarthur Coal achieved a number of safety milestones in 2010:

- Coppabella and Moorvale mines combined recorded a TRIFR of 17.5 which was well below the Company's overall target of 21
- The Coppabella Mine recorded the lowest ever TRIFR in the history of the Coppabella Mine
- The Coppabella Mine recorded its first year (365 consecutive days) free of a lost time injury.

## COPPABELLA MINE

The Coppabella Mine's individual TRIFR of 16.4 was an excellent result and below the Queensland open cut coal mining industry TRIFR benchmark of 22.2. While staff and management at Coppabella recognise the significant achievements in safety performance, there is potential for further improvement. The senior management team are undergoing high-level risk management training to lead further improvements in safety performance.

## MOORVALE

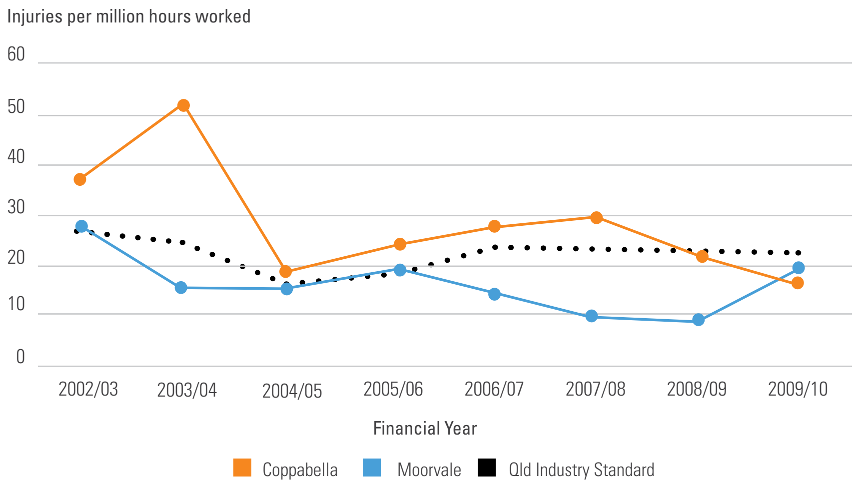
Moorvale Mine reported a TRIFR of 19.2 which is an increase in TRIFR compared to the 2009 rate but below the Queensland open cut coal mining industry TRIFR benchmark of 22.2. The main contributors to this performance have been soft tissue injury from dozer push operations and a number of trip and slip incidents from dismounting equipment.

The mine conducted an analysis of dozer incidents from May 2009 until October 2009 in response to this performance. Corrective actions included vibration monitoring, adjusting machine balance and set up, conducting dozer operator training and modifying blasting to reduce the size of fragmentation. From October 2009 there were no recordable injuries from dozing operations and the mine has since shared learnings from this safety effort with the Queensland Resources Council. In the second half of the year, the mining principal contractor focused on increased hazard reporting and safety contacts. Safety contacts are a tool where staff observe a task being performed and then talk to the people doing the task about conditions and safe behaviour to reduce risks in the operating environment. Moorvale Mine reduced its lost time injury rate by 10% in 2010 with only one lost time injury for the year.

## MIDDLEMOUNT MINE

Middlemount Mine reported a twelve month rolling TRIFR of 26.1. Whilst the number of injuries was minimised during the construction phase, the low manning hours impacted the final result. The mine also recorded 365 days lost time injury free in June 2010.

Total Recordable Injury Frequency Rate
(Qld Industry Standard vs Coppabella and Moorvale)




# FIGHTING FATIGUE

In 2010 Coppabella Mine recorded its lowest injury and lost time frequency rate since operations began in 1998 and these results can be attributed to a host of initiatives that keep people safe at work. One of the programmes introduced in 2010 was a sleep apnoea programme designed to combat fatigue on site, one of the biggest risks for operators.

The programme involved operators undergoing a diagnostic sleep study to determine if they were at risk of obstructive sleep apnoea, a serious and potentially life threatening disease. This condition affects the upper airways of the throat and causes repetitive pauses in breathing during sleep, a reduction in blood-oxygen saturation, followed by an awakening to breathe. It leaves the person feeling sleepy and lethargic the next day and at a higher risk of a fatigue related injury.

For those diagnosed with obstructive sleep apnoea, Macarthur Coal subsidised the purchase of a Continuous Positive Airway Pressure (CPAP) Machine. This machine helps the user achieve a full night sleep, free from breathing stoppages. This in turn reduces the occurrence of extreme fatigue amongst employees at work.

During 2010, 51 employees volunteered for the programme and were able to reduce the associated risks as a result. The programme is an example of the Company's commitment to 'lead the way' on safety as the obstructive sleep apnoea programme will soon become a legislative requirement across the mining industry.



# PEOPLE

IN 2010, MACARTHUR COAL'S PEOPLE FACED A NUMBER OF CHALLENGES AND RESPONDED WITH THE AGILITY THAT CHARACTERISES THE OVERALL BUSINESS CULTURE.

The year saw a number of attempts to change control of the business and was also characterised by widespread uncertainty across the mining industry as a result of the proposed Resource Super Profits Tax. In this climate, the team at Macarthur Coal continued to focus on business as usual and this is something that all employees can be proud of.

Macarthur Coal's Four Pillars illustrate the way Macarthur Coal goes about building its business and remind employees of the behaviours that set the Company apart.

The Company's success depends on what employees do and also on how Company values are integrated into everyday business. Each year the Company holds culture days where employees help define these values and work out how to integrate them in to day to day business.

## 2010 HIGHLIGHTS AND CHALLENGES

### Employee Turnover

Macarthur Coal's employee turnover has seen a significant improvement from 30% in 2009 to 8.5% in 2010. This can be attributed to the external market conditions, with the global financial crisis reducing turnover across the industry, and to an increased focus by the Company to implement strategies aimed at retaining talent.

### People

The distribution of employees across the Company reflects Macarthur Coal's current operations. Coppabella Mine has the highest number of employees since Macarthur Coal took over as owner operator in part of the mine in 2006. The Coal Handling and Processing Plant (CHPP) is still being operated by contractors and the drilling operations were converted to owner operator in May 2010.


> "I WOULD LIKE TO THANK ALL OF THE PEOPLE OF MACARTHUR COAL FOR THEIR EFFORT AND DEDICATION TO THE COMPANY'S RECOVERY AFTER LAST YEAR'S ECONOMIC DOWNTURN." Nicole Hollows

Mining and CHPP activities at the Moorvale Mine have been carried out by contractors since 2002 with Macarthur Coal providing management services. Operational activities at the Middlemount Mine project will also be undertaken by contractors.

While Macarthur Coal's overall age profile is balanced there is a need to address skill shortages in particular trades and skill specialties where the Company has a concentration of older staff nearing retirement. In 2011 the business will be investigating more flexible work practices including ways to create more part time roles at the mine sites.

The business uses trade apprenticeships and graduate programmes to help create a more diverse demographic in the workforce. The indigenous trainee programme run in 2010 resulted in a number of participants securing a contract position. Several graduates secured roles in the business across areas such as human resources and engineering.

Macarthur Coal continues to pursue gender diversity across both the mine sites and the rest of the business. The Company has a female CEO, Nicole Hollows, and women comprise 33% of Senior Executives and 40% of Senior Leaders.

Value people

- The safety of our people will always come first
- We set our people up for success – without removing responsibility

Work together

- One team – the team is stronger than the sum of its parts
- One direction – trust in one another to meet the objectives of the Company and our key stakeholders

Lead the way

- Leadership by action
- Punch above our weight

Talk straight

- Communicate freely, while being mindful of impact
- Stand up for what we believe in

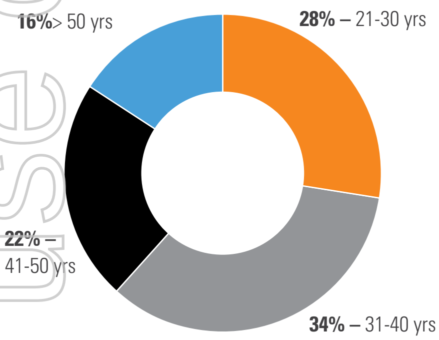
At the mine sites women comprise 13% of operators compared to an industry average of 14%. Given the skills shortages the mining industry is experiencing for operators and tradespersons, the business will be looking at how the percentage of women can be increased throughout 2011 as part of a broader effort to attract and retain staff.

### Learning and Development

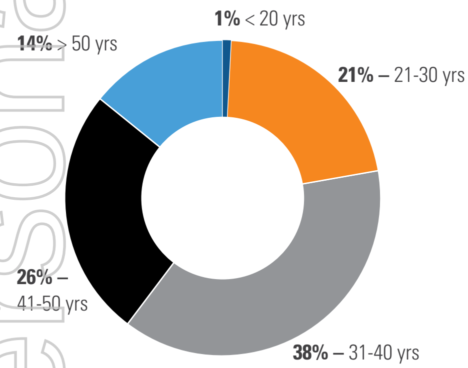
In order to achieve Macarthur Coal's goals of sustainable growth and operational excellence, the Company has individual Learning and Development plans for all employees. These plans outline learning and development activities for the year and are reviewed as part of the formal performance management process.

The Company set a 2010 target to have 75% of planned learning and development completed and the actual performance rate was 71%. The ability of some employees to take time out for training and development was impacted by the corporate activity in the second half of 2010. Examples of the professional development programmes offered during the year include Finance for non-Financial people, Mining for non-Miners and Strategic Planning and Implementation. A large number of training sessions were conducted within the operations with the sites achieving 85% of the learning and development plan. This included all senior mine-site staff completing the Site Senior Executive exam.

## Age Profile - Macarthur Coal Brisbane Office Employees




## Age Profile - Macarthur Coal Minesite Employees




Median age - Brisbane and Mine Site

| LOCATION | AGE |
|---|---|
| Brisbane | 36 years |
| Mine Sites | 37 years |

Female participation at Brisbane office compared to industry average

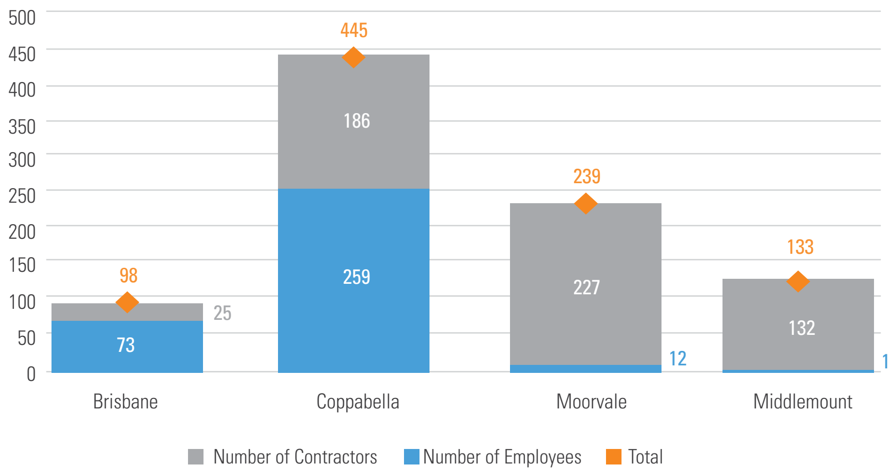
| LOCATION | INDUSTRY AVERAGE | ACTUAL AS AT 30 JUNE 2009 | ACTUAL AS AT 30 JUNE 2010 |
|---|---|---|---|
| Brisbane | na | 46% | 47% |

Female participation at Mine Site compared to industry average

| LOCATION | INDUSTRY AVERAGE[1] | ACTUAL AS AT 30 JUNE 2010 | ACTUAL AS AT 30 JUNE 2009 |
|---|---|---|---|
| Mine Site | 14% | 13% | 16% |

[1] Queensland Resources Council

## Number of Employees and Contractors (as at 30 June 2010)




## 2011

Over the next 12 months, as the mining sector and employment market continues to recover, Macarthur Coal will need to respond with agility to the challenges to attract and retain talent. The mining sector continues to experience skills shortages in both trades and professional roles, despite the impacts of the global financial crisis. Further impacting on the skills shortages are demographic issues such as the increasing age of Macarthur Coal's workforce. The business will be responding in a way that respects diversity and supports flexibility within the workforce.

The last year was characterised by a focus on navigating the legislative changes and impacts from the Fair Work Act to ensure a safe and highly productive work environment. Macarthur Coal's greatest challenges in the coming year will be attracting and retaining talent for growth, and developing leaders of the future.

*Talent for Growth* is the strategy to secure the people needed to grow the business and help reach the goal of doubling 2009 sales by 2014. This involves work on role clarity, identifying competencies, and succession planning. In 2011 and beyond, the business will focus on workforce planning for shortages, securing the right talent needed to support growth and increasing the bench strength of the business.

The term bench strength means increasing the number of employees with the characteristics needed to fill critical roles and leadership positions going forward.

The *Leadership Capability* strategy improves the skills of Macarthur Coal's leaders. The Company has identified that, while it recruits technically proficient people who progress through the business, more needs to be done to develop their leadership capability. Over the coming year, the business will be formalising programmes to support emerging leaders and future thinking leaders.

### Lead the Way

Each year, Macarthur Coal recognises four people who have set an example for others with their efforts at work.

The Spirit of Macarthur Coal award acknowledges two people who set a great example for others to follow by:

- Being a team player
- Adapting to meet business requirements
- Striving to do their best
- Bringing a positive attitude to work every day
- Going beyond the call of duty.

In 2010, this award was presented to David Skinner (Coppabella) and Glen Dalgleish (Brisbane).

The Lead the Way award is presented to people who exhibit leadership by:

- Innovating in the way they do things
- Focusing on continuous improvement
- Working with a can do attitude
- Driving business growth through a customer focus and partnership approach.

In 2010 this award was presented to David Scott (Coppabella) and Michelle Kahler (Brisbane).

### Value people

At Macarthur Coal the business leaders place a high priority on having an engaging workplace where employees feel respected and valued. Regular research is conducted into the operating culture to gauge what changes are needed to generate sustainable growth and support operational effectiveness. This research takes the form of 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.

Macarthur Coal ran the last OCI and OEI research in December 2009 and since then has been focusing on five areas to improve culture across the Company. These are:

- Communications and managing change
- Understanding and addressing the concerns people raise through focus groups
- Celebrating successes
- Role clarity to support business strategy
- Refocusing on resource management following redundancies.

The Company also supports a diverse workplace by making sure employees are aware of their entitlements and obligations.

This effort is supported by policies and procedures in respect to harassment, discriminatory employment practices and unethical business practices.

These policies are communicated to all new employees to help them understand the importance of diversity and respecting each other's differences. All employees take part in mandatory company-wide training sessions.

### Work Together

One of Macarthur Coal's four values is Work Together and team building is part of the culture. In 2010 this value was supported by:

- Twice yearly Working Together programmes where people from across the business spend three days off site in personal development and team building activities.
- Monthly social functions hosted by a member of the Executive Leadership Group (ELG)
- Monthly barbeques hosted by the mine site General Managers.

### Talk Straight

Macarthur Coal has approximately 345 employees and 570 contractors spread across the four sites of Brisbane, Coppabella Mine, Moorvale Mine and Middlemount Mine. The growth in the Company over time has increased the need for effective internal communication and roles have been added to support this. In 2010, the Company kept staff up to date on current business issues through weekly updates and monthly management presentations. Macarthur Coal's CEO presents twice yearly on the Company's results and people join together from across the business for strategy days throughout the year. During the intense period of corporate activity in 2010, business communication was ramped up to daily meetings so employees could hear the latest news from leaders, ask questions and raise their concerns.

## HOW HAS MACARTHUR COAL REBUILT ITS WORKFORCE?

In 2009, Macarthur Coal was forced to dramatically reduce production as coal sales decreased in response to global market conditions. As a result the Company had to make 80 employees and 100 contractors redundant and this equated to approximately 30% of the Company's workforce at that time.

During 2010, the Company was able to re-engage some employees on a contract basis as sales and production improved. By March 2010, all of this group had secured permanent roles and Macarthur had rehired almost 40% of the people made redundant the previous year.

Macarthur Coal made a conscious effort throughout the year to find past employees who had been made redundant and rehire them. In some instances these people had already found other work while others were able to come back and the business has the benefit of their experience. This turbulent period has helped Macarthur Coal better prepare its workforce for future growth.


# STAKEHOLDER ENGAGEMENT

## MACARTHUR COAL STRIVES TO INFORM KEY STAKEHOLDERS ABOUT THE COMPANY'S PERFORMANCE AND FUTURE PLANS IN AN OPEN AND TRANSPARENT MANNER

Engaging with stakeholders is an important component of the Company's commitment to sustainable growth.

Macarthur strives to adhere to the following principles when communicating with stakeholders:

- Timely communication
- Equitable access to Company information
- Balanced communication
- Plain English.

The Macarthur Coal Communications Plan provides the basis for targeted engagement with stakeholders, both internal and external, in a timely and informative fashion. The plan includes:

- **Investor relations:** Macarthur Coal employs several methods to communicate with investors including quarterly, half yearly and annual reports, ASX releases, national and international roadshows, teleconferences, conference presentations and the Annual General Meeting. Brokers and analysts are encouraged to contact the Company with questions or requests for information.
- **Macarthur Coal website:** Macarthur Coal regularly publishes Company information and announcements on its website (**www.macarthurcoal.com.au**).
- **Nebo News:** Macarthur Coal regularly contributes to this monthly community newspaper providing stories that are of interest to the general community.
- **Proactive and reactive media relations:** Macarthur Coal publishes regular updates on the business through the ASX and through statements distributed to the media and on the Company website.
- **Communications with key Government and industry bodies:** Nicole Hollows, CEO and Managing Director, is the president of the Queensland Resources Council and management represent the business through their memberships in a diverse range of government and industry forums.
- **Sponsorships and Donations Programme:** Macarthur Coal provides support to the communities near the mine sites and invests in developing skills and knowledge of the broader mining industry.

In addition to targeted stakeholder engagement, Macarthur Coal undertakes many other forms of engagement at the site and business unit level, in relation to business matters. The table opposite provides an outline of some of the stakeholder activities conducted during 2010.



## STAKEHOLDER ENGAGEMENT IN 2010

| ISSUE | RELEVANT STAKEHOLDERS | MACARTHUR COAL'S RESPONSE |
|---|---|---|
| Corporate activity | Shareholders, employees, institutional investors and media | Macarthur Coal regularly updated the media and investors throughout the period of intense corporate activity. The Company also provided a Letter to Shareholders at the end of this period. |
| Market disclosure | Shareholders, institutional investors, brokers and analysts | Macarthur Coal conducted half and full year roadshows at locations including Brisbane, Sydney and Melbourne. A full year roadshow was provided in Europe, USA, Canada and Asia. Major issues impacting on Macarthur Coal's performance were continually disclosed to the market. |
| Goonyella-Abbot Point expansion (GAPE) formerly known as the Northern Missing Link | QR Network, Middlemount Coal Pty Ltd and Noble Group Limited | Ongoing negotiations between all parties resulted in QR Network executing a 15 year take or pay contract with Middlemount Coal Pty Ltd (an incorporated joint venture between Macarthur Coal Limited and Noble Group Limited). |
| Queensland Coal Industry Rail Group (QCIRG) | State Government, industry associations, coal producers, and Australian Rail Track Corporation | As a member of QCIRG, Macarthur Coal participated in a full cash offer to buy the Central Queensland coal track network. At the time of this report, negotiations are continuing. |
| Resource Super Profits Tax (RSPT) / Minerals Resource Rent Tax (MRRT) | Federal Government, industry groups, coal producers, media and investors | Macarthur Coal was a vocal opponent of the Federal Government's proposed RSPT which was replaced by the proposed MRRT in June 2010. The Company will participate in industry consultation on the implementation of the MRRT in 2011. Macarthur Coal also participated in various industry forums. |
| Carbon | Federal Government, State Government, industry groups, employees and investors | Macarthur Coal continued to participate in policy development to support emissions reductions and maintain the international competitiveness of the Australian coal industry. |
| Energy management | Federal Government, State Government, industry groups and employees | In 2010 Macarthur Coal involved employees in data collection and analysis, and in designing and delivering energy efficiency initiatives. See page 59 for further information on these initiatives. |
| Blasting | Adjacent landowners | Blast monitoring was proactively carried out by mine staff at a landowner's residence during the first half of the 2010 calendar year. The blast monitoring was done to assess the impact of mining activities on neighbours and found it was within regulatory limits. The Company is increasing the frequency of communications to affected neighbours. |
| New projects | Landowners, local communities, Local and State Government bodies | Macarthur Coal engaged directly with landowners, members of local communities and State and Local Government to ensure they were informed about the Company's proposed activities for new projects and the potential impacts of these activities. The Company will continue to consult with these groups in 2011 as part of the Codrilla Environmental Impact Study and through ongoing exploration and evaluation of other projects. |
| Cultural Heritage and Native Title | Traditional Owners | During 2010 Macarthur Coal undertook a number of meetings and field inspections with various Traditional Owner groups associated with the Company's tenement portfolio. Macarthur Coal aims to develop and maintain long term working relationships with all Traditional Owner groups associated with its operations. |

*Image courtesy of RACQ CQ Rescue*

# COMMUNITY SUPPORT

THE COMPANY IS DEDICATED TO SUPPORTING COMMUNITIES THROUGH SUSTAINABLE DEVELOPMENT AND THROUGH A SPONSORSHIPS AND DONATIONS PROGRAMME.

The Sponsorships and Donations Policy sets out the objectives of the programme and criteria for assessing requests for support and funding. The objectives are to:

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

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

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

Macarthur Coal considers it essential to invest in the development and training of future employees in the resources sector - one of the state's most innovative and economically important sectors. The Company invested in a number of initiatives over the past financial year, including:

- Sponsorship of the Queensland Minerals and Energy Academy – a partnership between the Queensland Government, Queensland Resources Council and training and academic providers, which aims to provide high school students with clear pathways into the resources sector
- Contributing to The University of Queensland Mining Engineering Scholarships programme which is open to second year students studying a Bachelor of Engineering. The programme includes an annual stipend of $10,000 for the remaining three years of the recipient's degree
- Participating in the AusIMM Australian Student Mineral Ventures – a series of vacation programmes for high school students held annually throughout Australia to help students find out about careers, lifestyles and opportunities in the minerals industry
- Continuing its Shares for Schools Programme - providing financial support to a range of Queensland high schools as well as providing students with the opportunity to gain a better understanding of the processes involved in running a publicly-listed company.

Community programmes and events supported by the Company included:

- RACQ Central Queensland Helicopter Rescue Service – a not-for-profit charity that provides rescue transport services across the Bowen Basin and remote Queensland communities
- Yalari – a not-for-profit organisation committed to the empowerment, development, motivation and support of Indigenous children in communities throughout Australia
- 4RFM Moranbah Community Radio Station – a community radio station at Moranbah staffed almost entirely by volunteers
- The Nebo community - including the Road Accident Action Group, Nebo News and Nebo Bushman's Carnival
- Local school activities - including Nebo State School, Coppabella State School and Valkyrie State School.

# FINANCIAL CONTRIBUTION TO THE ECONOMY

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 2010 Macarthur Coal spent:

- Over $53.3 million in salaries, wages and superannuation to its employees (excluding contractors, on a 100% project basis)
- $53.4 million in dividends to shareholders
- $58.0 million in company tax to the Australian Government
- $56.9 million in royalties to the Queensland Government (on a 100% joint venture basis)
- $41.5 million in rail freight charges (on a 100% joint venture basis)
- $45.0 million in port charges (on a 100% joint venture basis) excluding demurrage.

The Company also made a substantial contribution to the local communities in which 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.

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.



# ENVIRONMENTAL RESPONSIBILITY

MACARTHUR COAL'S COMMITMENT TO SUSTAINABLE GROWTH INCLUDES MANAGING THE IMPACT OF THE COMPANY'S OPERATIONS ON THE ENVIRONMENT.

Macarthur Coal focuses its efforts on:

- Adopting best practice in mine planning, operations and rehabilitation
- Minimising water discharge from mine sites to the environment
- Reducing energy consumption.

## ENVIRONMENTAL PERFORMANCE

Macarthur Coal's target for 2010 was to have no environmental non-compliances. Unfortunately the business incurred two penalty infringement notices (PIN) during the year. These penalties related to the new water management regulations introduced by the Queensland Department of Environment and Resource Management (DERM) for all mines in the Fitzroy Basin shortly before the start of the January to March 2010 wet season.

Both mines responded to meet new obligations including a full water management study at Coppabella. With rainfall ranging from 200-400mm across the region in March (associated with Cyclone Ului) there were still some discharges from both sites that were not in accordance with the regulations. These discharges resulted in each mine receiving a PIN of $2,000.

| ENVIRONMENTAL GOVERNANCE | |
|---|---|
| Structure | Macarthur Coal has a Carbon and Environment Committee to oversee reporting and monitoring of all environment and sustainability activities across the Company. Regular reports are provided to the Board on environmental performance |
| Legislative framework | In order to achieve stated objectives, the Coppabella and Moorvale mining operations follow the procedures set out in the Environmental Impact Statements, Environmental Management Overview Strategies, Plans of Operations and site specific management plans. Site-specific Plans of Operations are submitted to the DERM on an annual basis. Each Plan of Operations and amendments to these plans are subject to DERM approval<br>Environmental activities at Coppabella and Moorvale mines are managed by the joint venture manager, Macarthur Coal (C&M Management) Pty Ltd (MCCM). MCCM is responsible for ensuring all site contractors install, maintain and operate all plant and equipment in compliance with the conditions of the Environmental Authority (EA) enforced by the DERM |
| Education | Macarthur Coal employees and contractors are informed of applicable environmental statutory and contractual obligations where relevant to their role and the location in which they work. The programme to make employees aware of these obligations requires each site-based employee to undergo a site-specific mine induction when they commence their employment, which includes training in environmental awareness. If there are any changes to environmental statutes or policies, the Environmental Superintendent ensures all employees and contractors are informed of the new requirements |
| Reporting and monitoring | The Board and Management are provided with regular environmental performance reports and any non-compliance issues are reported to the Board. Ongoing liaison is undertaken with the DERM to ensure awareness of any changes to policies or guidelines and to ensure that conditions are not breached |
| Communication and consultation | Maintaining open communication and consultation with local communities is a priority for Macarthur Coal. For example, neighbouring landowners are contacted and informed of any blasting which is to take place and they are also sent selected environmental monitoring results such as those dealing with dust and/or water. Regular landholder meetings are held on site where neighbours come and view the operations and discuss environmental performance, progress and future plans. Macarthur Coal realises the importance of building and maintaining strong local relationships |

Plans are in place to undertake capital works at both sites to help meet the new regulations. Macarthur Coal will be upgrading water management infrastructure at both sites prior to the 2011 wet season including stream diversions, clean water diversions, contour banks, and new or larger sediment dams.

No other external environmental incidents occurred over the year.

Macarthur Coal's commitment to sustainable growth requires the Company to successfully rehabilitate mined areas. The impact of mining operations can be minimised when this is carried out well with ongoing benefits for local ecosystems.

The rehabilitation target the Company set for 2010 was to complete 50 hectares and this target was met and exceeded with 58 hectares rehabilitated. See the case study on page 57 for further detail on rehabilitation.

Macarthur Coal also completed its first National Greenhouse and Energy Reporting Scheme (NGERS) report in 2010 and has received very favourable feedback from the administering authority for the accuracy and quality of the report. See page 59 for further detail on managing emissions.

## ENVIRONMENTAL INITIATIVES IN 2010

### Environmental systems

In 2010 Macarthur Coal revised its Environmental Management System (EMS) to align it with ISO 14001 (the International Standard for Environmental Management Systems). The intent of the system is to conform to the structure and intent of the international standard and to have an easily auditable system. Following an external audit of the Environmental Management System, Macarthur Coal changed its Health, Safety, Environment Policy to better reflect the requirements of ISO 14001. The newly drafted Environment policy now meets the standard and better defines the Company's environmental objectives and targets.

### Water management plans

Water management plans for Coppabella and Moorvale were revised following the introduction by DERM of the new Fitzroy Basin water management conditions. This included updating site water balances for both mines, developing emergency (flood) procedures, and identifying infrastructure needed to support compliance.

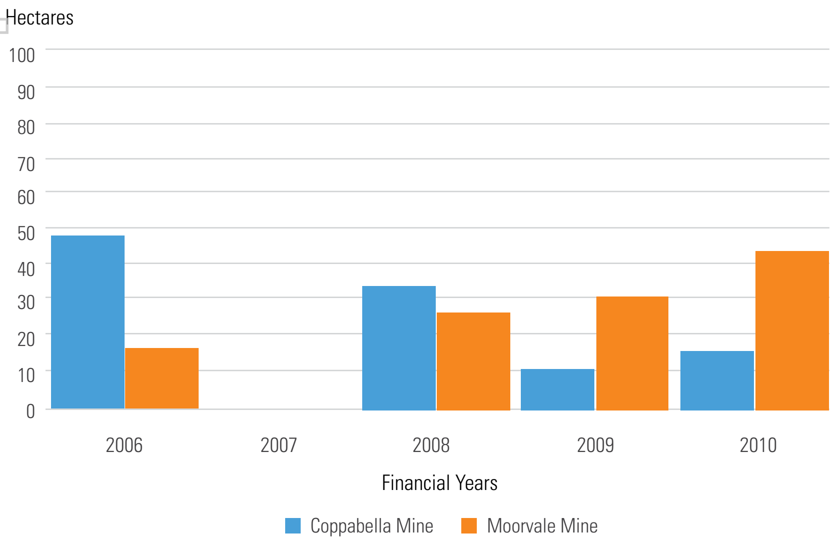
### Rehabilitation

The main objective of Macarthur Coal's land rehabilitation is to create stable landforms that are vegetated and drained in a way that complements the existing landscape. Topsoil is removed prior to mining and stockpiled for later use. The Company manages its topsoil stockpiles carefully to maintain the integrity of the soil and limit loss caused by wind and water erosion.

Macarthur Coal's mine sites undertake rehabilitation as soon as possible after disturbance. In 2010 Macarthur Coal rehabilitated 58 hectares (42 hectares at Moorvale and 16 hectares at Coppabella). In 2011 the focus will be on rehabilitating 52 hectares at Coppabella and 13 hectares at Moorvale Mine. Middlemount does not have areas available for rehabilitation at this stage.

Any rehabilitation since the start of mine life is monitored for success or failure. Macarthur Coal monitors rehabilitation through a technique known as Ecosystem Function Analysis. This system establishes how well rehabilitation is performing over time and looks at how many different species of trees and grasses have successfully germinated and are growing. It also analyses how rehabilitated areas are performing from a whole of ecosystem viewpoint. By using this technique, Macarthur Coal is able to measure elements such as nutrient cycling, the amount of humus or vegetative matter that is deposited over time, and colonisation by insects, ants and other fauna. Early results of this work indicate that the ecosystems in the rehabilitated areas are robust and reasonably diverse.

Hectares Rehabilitated




# HOW DOES MACARTHUR COAL REHABILITATE LAND AFTER MINING?

The mine sites undertake progressive rehabilitation as soon as possible. This means as soon as disturbance ceases, or areas are available, Macarthur Coal begins the process of minesite rehabilitation. Rehabilitation involves the shaping of out of pit dumps, contouring slopes to a 1:7 (approx 14° angle) batter and building contour and drainage structures to help prevent rainfall runoff from eroding rehabilitated areas. Machinery replaces the topsoil which was previously set aside before the area was mined. The area is then revegetated with native tree and grass seed, fertiliser and mulch. Revegetation activities are usually carried out just prior to the wet season to maximise the growth of the seeds. Local species of trees and grasses are used in the process to minimise weeds and to suit the end of mine land use.

# ENVIRONMENTALLY AND CULTURALLY AWARE EXPLORATION

Macarthur Coal's exploration activities involve a variety of tenements with unique environmental and cultural circumstances. Exploration activities are undertaken in keeping with the requirement of the Environmental Authority and in consultation with the landowners and Cultural Heritage Party(s). The appropriate Cultural Heritage Party(s) undertake cultural heritage inspections before land is disturbed by drilling/surveying. A "Checklist for Land Disturbance" is completed prior to land disturbance on exploration projects. This procedure is essential to ensure Macarthur Coal exploration complies with the various legislative requirements for disturbance with respect to environmental and cultural heritage values.

Once an exploration hole is drilled, logged and surveyed, it is then plugged and capped. The site of the drill hole is rehabilitated with the backfilling of any resulting hole and the levelling of the site. Revegetation of drill sites and traverses is monitored and, where necessary, reseeded to the landowners satisfaction. This process helps minimise damage to the local ecosystems and also reduce disturbance for landowners.

Where an exploration prospect becomes a mine development project, extensive environmental field surveys are completed and used to support the application for granting a Mining Lease.



## MANAGING WASTE EFFECTIVELY

Macarthur Coal's operations focus on waste avoidance, reduction, recycling and disposal. These waste hierarchy principles help the business avoid direct or indirect impacts on the health of the communities and ecologies surrounding Macarthur Coal's mine sites.

The Company's Waste Management Plan is approved by DERM and includes provision for the ongoing monitoring of Macarthur Coal's waste management. The policy does not allow landfills to be created onsite. All waste from mining operations is removed by a registered contractor who recycles or disposes of it. The Company's corporate office has reuse and recycle programmes for materials such as paper and ink cartridges.

## MANAGING WATER RESOURCES

Water is recycled wherever possible and in 2010 no external raw water from Macarthur Coal's Sunwater pipelines was used for processing coal. All water used in the Company's coal production is recycled, with the exception of water lost through evaporation.

In 2010, both Coppabella and Moorvale had enough on-site water for the next two years (at a minimum) to the extent that the operations are virtually self sufficient in meeting their water requirements. In addition Macarthur Coal has take or pay water offtake from the Burdekin pipeline to supply water to Coppabella and Moorvale mines.

The major user of raw water on both sites is the new water treatment plant at Moorvale Mine which is used to supply potable (drinking) water for both mine sites and Macarthur's accommodation camp (Terowie Accommodation Village).

Macarthur Coal is currently investigating water needs for current and new projects, with discussions focusing on the new dam proposed on the Connors River as a potential water supply source.

# MANAGEMENT OF CARBON EMISSIONS

MACARTHUR COAL RECOGNISES THAT THERE ARE RISKS AND COSTS ASSOCIATED WITH CARBON EMISSIONS FROM MINING OPERATIONS. IN AN EFFORT TO MITIGATE THESE RISKS, AND TO MINIMISE EXPOSURE TO RISING ENERGY COSTS AND POTENTIAL CARBON COSTS, THE COMPANY HAS IMPLEMENTED POLICIES, PROCESSES AND PROCEDURES TO MANAGE CARBON EMISSIONS.

Macarthur Coal's aim is to develop a culture of awareness, monitoring and continual improvement in energy and carbon matters.

## MACARTHUR COAL'S CLIMATE CHANGE STRATEGY IS FOCUSED ON FOUR AREAS:

- Compliance with Government schemes for reporting greenhouse gas (GHG) emissions and energy use
- Identification and management of regulatory, physical, market and other climate change risks to the business
- Improved management of GHG emissions and energy use in the Company's operations
- Engagement with stakeholders including joint venture participants, contractors and suppliers, customers, employees and shareholders regarding the Company's climate change strategy.

## 2010 ACHIEVEMENTS

In 2010, Macarthur Coal progressed its Carbon Action Plan. Achievements included:

- development of an abatement strategy to identify key areas to be addressed and the way forward to achieve and sustain ongoing GHG emissions abatement
- development of a fugitive emissions strategy detailing the issues, potential impacts and mitigation options specific to fugitive methane emissions and an Action Plan for moving forward
- development of an Energy Management Policy, Standard, and Action Plan, to formalise the Company's approach to energy efficiency and provide an effective framework which allows energy use to be measured, monitored, and reduced
- development of an energy management team structure incorporating defined roles, responsibilities and accountabilities to promote and progress the Company's energy management goals
- registration of the Company as a controlling corporation and reporting of energy consumption, energy production, and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007 (Cth)*
- submission of an Assessment and Reporting Schedule under the *Energy Efficiency Opportunities Act 2006 (Cth)*, development of an Energy Efficiency Opportunities manual and project plan, and commencement of a comprehensive energy efficiency assessment process
- implementation of several energy efficiency initiatives that together are expected to reduce emissions by 2,000 tonnes of carbon dioxide equivalent ($CO_2$-e) per annum and energy use by 673,000 litres of diesel fuel
- further development and refinement of systems and processes for the measurement and reporting of GHG emissions and energy consumption
- development of an internal communications strategy to raise awareness of energy use, promote the Company's energy management goals, and engage employees in achieving these goals
- continued engagement with Government and industry bodies on policy development and implementation
- participation in the Carbon Disclosure Project on Macarthur Coal's approach to the management of carbon emissions and disclosure of carbon emissions for the 2009 calendar year.

## CARBON AND ENVIRONMENT COMMITTEE

Macarthur Coal has a Carbon and Environment Committee with representation from each of the business units to reflect the company-wide approach to the implementation of the Carbon Action Plan and the management of environmental performance. The goal of this Committee, established in 2007, is to develop a carbon emissions management strategy to:

- understand Macarthur Coal's carbon footprint with respect to operations and customers
- improve the management of GHG emissions across operations
- continue to support and participate in industry research and development projects such as COAL21
- undertake government and stakeholder liaison in the design of climate change policies.

## UNDERSTANDING MACARTHUR COAL'S GREENHOUSE GAS EMISSIONS

Macarthur Coal has invested time and resources to understand the sources of the Company's GHG emissions to identify potential energy savings and emissions abatement projects. This helps the Company to comply with reporting obligations and improve management of GHG emissions and energy use.

The Company's Climate Change Policy and Action Plan are approved by the Board. The Carbon and Environment Committee oversee its implementation. The General Manager – Carbon and Energy is responsible for day to day management of the Action Plan. Regular communication and consultation with Company stakeholders is an intrinsic part of this process.



Macarthur Coal's GHG emissions are the result of:

| Scope 1 | |
|---|---|
| Direct emissions | • Fugitive emissions (largely methane) released when coal is mined. Methane is a gas created during the formation of coal and released during mining<br>• Fuels such as diesel and oil used in the mining operations |
| **Scope 2** | |
| Indirect emissions | • Electricity purchased to run the operations. Electricity generators are mostly coal fired power stations |
| **Scope 3** | |
| All other indirect emissions | • Railing coal from mines to the port<br>• Emissions from business travel (plane and car trips). |

## CARBON FOOTPRINT

Macarthur's carbon footprint is the total of all direct and indirect carbon dioxide equivalent ($CO_2$-e) emissions which are calculated as the sum of the Scope 1, 2 and 3 emissions listed above. The Company's carbon footprint for 2010 compared to the previous year is shown in the Year on Year Emissions table below.

## GREENHOUSE GAS EMISSIONS

These figures are estimates determined from data collected as at 30 June 2010 and extrapolations based on emissions intensities.

## YEAR ON YEAR EMISSIONS

Emissions intensity is a measure of average emissions produced for every unit of production costs ($million of FOB cash cost) or production volumes (ROM tonnes). It provides an indication of the production efficiency of the Company's operations in terms of emissions.

| | Status | 2010 | 2009 |
|---|---|---|---|
| Total Emissions (t $CO_2$-e) | ↑ 13% | 414,303 | 367,127 |
| Emissions Intensity (t $CO_2$-e / $m FOB cash cost) | ↑ 9% | 710 | 653 |
| Emissions Intensity (t $CO_2$-e / ROM tonne) | ↑ 7% | 0.048 | 0.045 |

Emissions notes:

1. Note that Macarthur Coal's 2009 carbon emissions have been revised and are materially lower than reported in the 2009 Annual Report. This is because firstly, the data verification process applied for NGERS reporting uncovered errors, and secondly the freight emissions decreased significantly due to the emissions factor applied.
2. Emissions for some minor sources have been estimated based on last year's activity due to data not being available at the time of reporting
3. Data has not undergone detailed (ie NGERS level) internal verification

Macarthur Coal's emissions profile is comprised of:

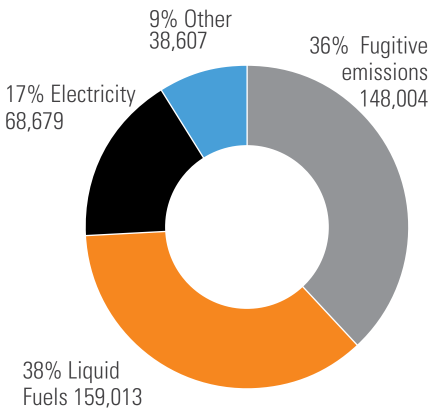
## DIRECT AND INDIRECT EMISSIONS (TONNES $CO_2$-e)

| | Total | % | Scope 1 | Scope 2 | Scope 3 |
|---|---|---|---|---|---|
| Total | 414,303 | 100.0% | 299,476 | 60,515 | 54,312 |
| Coppabella Mine | 235,614 | 56.9% | 161,988 | 43,814 | 29,812 |
| Moorvale Mine | 168,261 | 40.6% | 129,470 | 16,465 | 22,326 |
| Middlemount Mine | 7,752 | 1.9% | 6,881 | n/a | 871 |
| Corporate | 1,435 | 0.3% | n/a | 225 | 1,210 |
| Other | 1,241 | 0.3% | 1,137 | 11 | 93 |

## SOURCES OF EMISSIONS

Fugitive methane emissions and diesel use from coal mining operations constitute Macarthur's largest emission sources.

Major Emissions[1] Sources
(tonnes of $CO_2$ equivalent)




1 Total emissions shown here represent all scopes and sources of emissions for which Macarthur Coal is the controlling corporation responsible for reporting on behalf of all its joint venture partners under the *National Greenhouse and Energy Reporting Act 2008 (Cth)* plus Scope 3 transport related emissions.

## IMPROVING MEASUREMENT AND REPORTING

In 2009 Macarthur Coal began integrating energy use and carbon emissions reporting and management into the business with the objectives of:

- improving data collection and reporting processes to ensure emissions data is accurate and robust and fully complies with emissions and energy use reporting obligations under Australia's new emissions reporting legislation, the *National Greenhouse and Energy Reporting Act (NGERS)*
- continued involvement in the Australian Coal Association Research Project (ACARP) to estimate actual fugitive emissions from open cut coal mines to position Macarthur Coal to be at the forefront of any new arrangements for measurement of fugitive emissions.

In 2010 the Company:

- successfully prepared and submitted its first NGERS report
- commenced the automation of some data collection through system integration to improve accuracy and reduce the collection workload
- broadened the scope of data collected to facilitate a more comprehensive understanding of energy use and carbon emissions within the operations.

## CARBON RISK MAPPING

One of Macarthur Coal's material business risks is carbon management (refer to page 82). The Company needs to specifically manage and mitigate:

- increased compliance costs associated with data collection and management, emissions reporting, and assurance of emissions and energy data
- increased capital costs to implement energy reduction projects and initiatives
- increased energy costs as diesel and electricity suppliers pass on the costs associated with emissions
- increased distribution costs as rail freight providers pass on the costs associated with emissions
- direct carbon permit liability costs under a future emissions trading scheme, particularly in regards to fugitive methane emissions
- potential impacts on the competitive position of Macarthur Coal as a result of the introduction of an emissions trading scheme.

## DEVELOPING ABATEMENT STRATEGIES AND MANAGING RISK

The key action underway to minimise the financial risks associated with climate change regulation involves systematically identifying abatement opportunities across Macarthur Coal's business. The Company is implementing projects to reduce emissions where a business case can be established.

In 2009 Macarthur Coal conducted a project to identify potential abatement projects and quantify the level of abatement and financial costs associated with those projects. In 2010 a number of these projects were implemented resulting in direct emissions reductions and energy cost savings.

In order to ensure ongoing benefits from abatement, Macarthur Coal developed an abatement strategy, a fugitive emissions strategy, and an Energy Management Policy.

The process for identifying regulatory risks related to climate change is currently conducted by the Macarthur Coal Carbon and Environment Committee and identified material business risks are reported to the Audit and Risk Management Committee and the Board.

## SUPPORTING LOW EMISSION TECHNOLOGIES

Macarthur Coal is a participant in several projects with the purpose of researching and implementing clean coal technologies. These projects include:

### COAL21

Macarthur Coal contributes 20 cents for every tonne of coal sold to the COAL21 Fund. The Fund is a whole-of-industry partnership established by the Australian Coal Association to support greenhouse gas abatement. The COAL21 Fund is raising over $1 billion over 10 years through voluntary levies on coal production to support the pre-commercial demonstration of low emission technologies in the power generation sector, and to support research and development.

### Australian Coal Association Research Program (ACARP)

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

5

# LEADERSHIP & MANAGEMENT

Keith De Lacy
Chairman of the Board, Chairman of the Nomination and Remuneration Committee, Independent Non-Executive Director

Martin Kriewaldt
Independent Non-Executive Director

Roger Marshall
Deputy Chairman, Non-Executive Director

Terry O'Reilly
Independent Non-Executive Director

Peter Forbes
Chairman of the Audit and Risk Management Committee and the Special Projects Committee, Independent Non-Executive Director

Nicole Hollows
Chief Executive Officer and Managing Director

Chen Zeng, Non-Executive Director

# DIRECTORS

## KEITH DE LACY, AM

***BA, HonDLitt, DUniv, QDA, FAICD, FAIM***

CHAIRMAN OF THE BOARD

CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE

INDEPENDENT, NON-EXECUTIVE DIRECTOR

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

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

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

Keith has been a Director of Reef Corporate Services Limited since 1 December 1999. He is also Chairman of Nimrod Resources Limited and Queensland Energy Resources Group. Keith recently retired from the Board of Trinity Limited, where he served as Chairman from 14 December 2004 to 21 August 2009.

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 and has been awarded, a University of Queensland Gatton Gold medal and a Centenary medal.

## ROGER MARSHALL, OBE

***BE, MAusIMM, FAIM, FAICD***

DEPUTY CHAIRMAN

NON-EXECUTIVE DIRECTOR

Roger has extensive domestic and international coal industry experience covering management, marketing, finance and operational roles. He has been Macarthur Coal's Deputy Chairman since 5 July 2001.

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

Roger's appointments to boards of other publicly listed companies include Chairman of Southern Uranium Limited from 14 April 2007, Chairman of Planet Metals Limited (formerly Queensland Ores Limited) from 18 May 2005 to 9 June 2009 and then as Director until 4 September 2009, and Director of CITIC Australia Trading Limited from 3 April 2002 until 23 January 2009.

## PETER FORBES

***FCPA, FCIS, FAICD, SA Fin.***

CHAIRMAN OF THE AUDIT AND RISK MANAGEMENT COMMITTEE AND THE SPECIAL PROJECTS COMMITTEE

INDEPENDENT, NON-EXECUTIVE DIRECTOR

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 also chairs this Committee.

Peter is a Director of QIC Retail Pty Ltd and QIC Private Capital Pty Ltd, and is a member of the Queensland Council of the Australian Institute of Company Directors.

## NICOLE HOLLOWS

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

CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

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

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

In her role, Nicole is responsible for the day to day management of all Company operations and plays a leading role in the Company's strategic direction including expansion plans. With more than 12 years' direct industry experience, Nicole has more than 19 years' experience in the resources sector.

In 2007 Nicole was appointed to the Board of the Queensland Resources Council (QRC) and in November 2008 became the President. Nicole is also a member of the Trustee Advisors Committee for the Queensland Museum and the QUT CEO Strategy Group for the School of Business.

## CHEN ZENG

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

NON-EXECUTIVE DIRECTOR

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

He is the Managing Director of CITIC Australia, a company that is a long time shareholder in Macarthur Coal and a participant in Macarthur Coal's coal ventures.

Chen has more than 22 years' experience managing a number of business operations, corporate and asset restructures and has developed several projects for the CITIC and CITIC Australia groups.

He was appointed an Executive Director of CITIC Resources Holdings Limited on 1 April 2004 and served as a Director from 3 April 2002 and Chairman from 14 May 2004 of CITIC Australia Trading Limited until 23 January 2009.

He is also a Director of the China Chamber of Commerce in Australia, China CITIC Group (appointed on 29 January 2010), and Director of Marathon Resources Limited (appointed on 27 December 2006).

## MARTIN KRIEWALDT

*BA, LLB (Hons), FAICD*

INDEPENDENT, NON-EXECUTIVE DIRECTOR

Martin is one of Queensland's most prominent company Directors. Martin was appointed as a Director of Macarthur Coal on 13 October 2008 and was appointed as a member of the Nomination and Remuneration Committee on 18 November 2008.

He currently sits on the boards of listed companies, Impedimed from 24 March 2005, Oil Search from 22 April 2002, BrisConnections Management Company Limited from 24 October 2008 and Campbell Brothers from 12 June 2001. He is also Chairman of Opera Queensland Limited.

He was previously a Director of GWA International Limited from 25 June 1992 to 30 October 2008, Arana Therapeutics Limited from 24 October 2003 to 28 August 2007 and, Suncorp-Metway Limited from 1 December 1996 to 16 April 2010.

Martin has 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 more than 20 years at legal firm, Allen Allen & Hemsley (now Allens Arthur Robinson).

## TERRY O'REILLY

*BCom, MAppFin, MBA, FAICD, FAIM, CPA*

INDEPENDENT, NON-EXECUTIVE DIRECTOR

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 also served on the board and as Chairman of Dalrymple Bay Coal Terminal.

Terry has chaired the World Coal Institute Promotions Committee, the Australian Coal Association, 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 was appointed as a member of the Audit and Risk Management Committee on 18 November 2008.

# SENIOR EXECUTIVES

AS AT 30 JUNE 2010

Peter Kane
Chief Operating Officer

Gary Lee
Vice President, Marketing

Michael Gray
EGM Projects & Infrastructure

Lisa Dalton
EGM Corporate Services and Company Secretary

## PETER KANE

*BE (Mining), MAusIMM, MMAA, GAICD, Certified Mine Manager*

CHIEF OPERATING OFFICER

Peter was appointed to this position in February 2008 and is responsible for overseeing all operational aspects of the Company's business including Macarthur Coal's interest in the development of the Middlemount Mine project.

Peter has over 20 years experience in the mining industry in both iron ore and coal mining and has worked for such companies as BHP Billiton, Thiess and Leighton Contractors.

## GARY LEE

*BAppSc (Hons)*

VICE PRESIDENT, MARKETING

Gary was appointed to the role of Vice President, Marketing in January 2004 where he is responsible 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.

From 1 September 2010, Gary will take on the role of Chief Development Officer where he will be responsible for evaluation of Macarthur's tenement portfolio, infrastructure management and carbon and energy management.

## MICHAEL GRAY

*BE (Civil), MBA, GAICD*

EGM PROJECTS & INFRASTRUCTURE

Michael joined Macarthur Coal in October 2005 and was appointed to the position of EGM Projects and Infrastructure in February 2008 where he is responsible for the management of Macarthur Coal's exploration and evaluation program, the management of long term infrastructure requirements and government relations.

Michael has 20 years' experience in the planning and development of major mining, industrial and infrastructure projects in Queensland and has had extensive involvement in resource development, environmental management and Native Title issues.

Michael will take up the role of Chief Executive Officer, Middlemount from 15 September 2010 where he will be responsible for all operations and the development of the Middlemount Mine.

## LISA DALTON

*BAppSc, MAppSc, LLB (Hons), FAICD*

EGM CORPORATE SERVICES AND COMPANY SECRETARY

Lisa joined Macarthur Coal in May 2007 having formerly held the position of Company Secretary at Tarong Energy Corporation. Lisa is responsible for the Corporate Services function 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.

# SENIOR EXECUTIVES

FROM SEPTEMBER 2010

Following on from a review of Macarthur Coal's strategy, an organisational structure review was undertaken to ensure resources are aligned to achieving the Company's objectives. This will result in some organisational changes from September 2010.

## GRAHAM YERBURY

*BCom, MBA, CA*

CHIEF FINANCIAL OFFICER

In September 2010, we welcome Graham to the role of Chief Financial Officer at Macarthur Coal.

Graham's most recent role was as Chief Financial Officer of Arrow Energy Limited, a Queensland based ASX100 company focused on the development of coal seam gas in Australia and throughout Asia. In that role Graham led a team of around 40 people dedicated to functions ranging from financial reporting to information technology. Graham's last project at Arrow was oversight of the recently approved demerger of Arrow's international operations and the acquisition scheme that will see Arrow's domestic assets transferred to Shell and PetroChina.

Prior to joining Arrow, Graham spent 14 years working in senior finance roles for ARCO and then BP in their coal, oil and gas businesses. Graham is a Chartered Accountant with post graduate qualifications in resource strategy and economics.

## SCOTT CROGER

*BAppSc, GradDipMgt (Marketing)*

VICE PRESIDENT, MARKETING

In September 2010, we also welcome Scott Croger to the position of Vice President, Marketing where he will be responsible for development and execution of the coal sales and marketing strategies for Macarthur Coal.

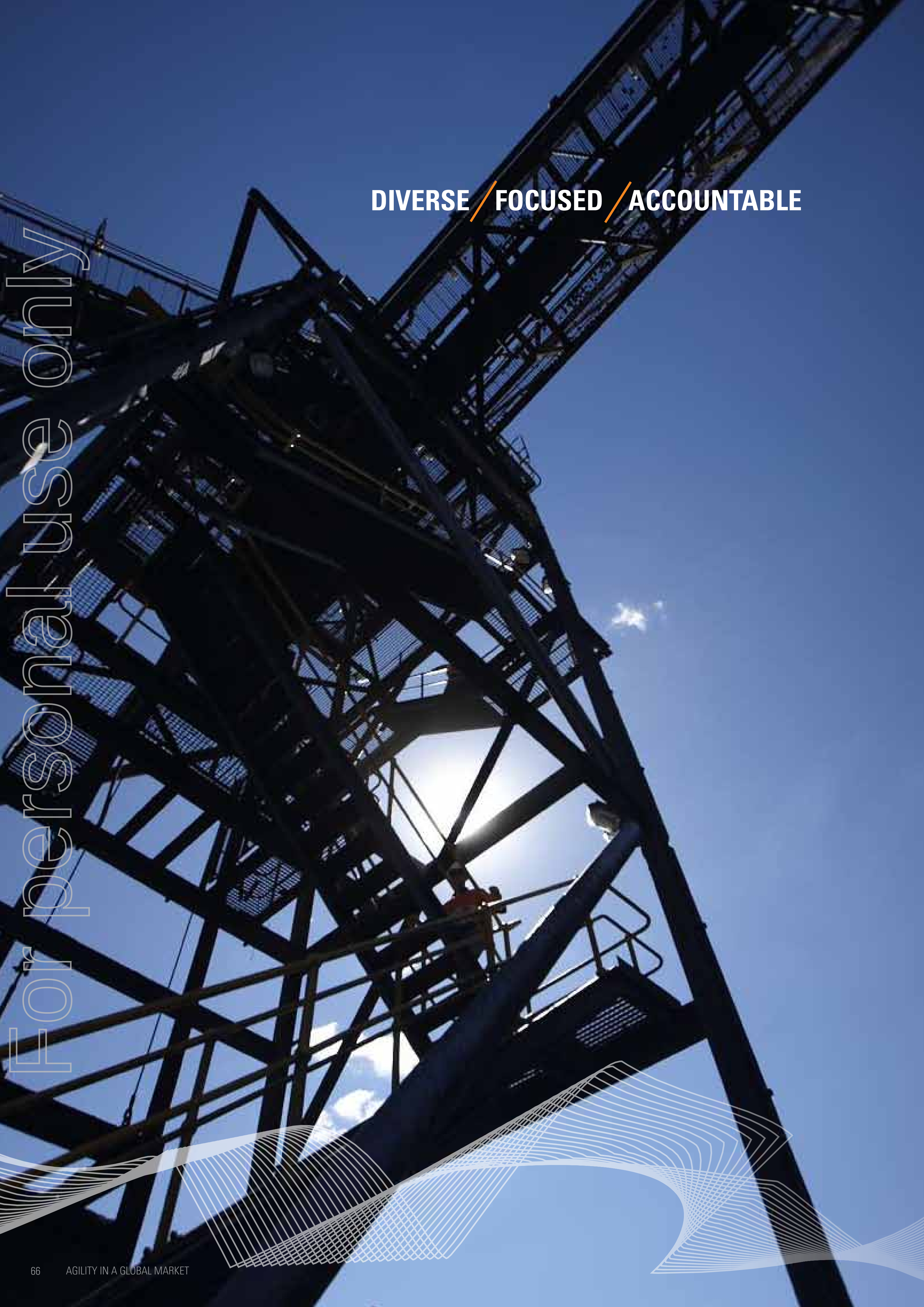
Scott joined Macarthur Coal in January 2005 and has been responsible for managing sales planning, logistics, market development and customer relationships in the Pacific market.

Scott has over 15 years experience in the mining industry. Scott began his career with BHP Billiton, and prior to joining Macarthur Coal spent time working for a French aluminum company and a Japanese trading company.

Senior Executives from September 2010 at Macarthur Coal will be Nicole Hollows, Peter Kane, Gary Lee, Scott Croger, Graham Yerbury amd Lisa Dalton.

Scott Croger
Vice President, Marketing

Graham Yerbury
Chief Financial Officer



DIVERSE / FOCUSED / ACCOUNTABLE

# 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 2010 AGM[1] |
|---|---|---|---|---|---|
| Keith De Lacy - Chairman | 5 July 2001 | 9 years | Yes | Yes | Yes |
| Roger Marshall - Deputy Chairman | 5 July 2001 | 9 years | Yes | No | No |
| Nicole Hollows - Managing Director | 28 June 2007 | 3 years | No | No | n/a |
| Peter Forbes | 14 November 2003 | 7 years | Yes | Yes | No |
| Chen Zeng | 23 July 2007 | 3 years | Yes | No | No |
| Martin Kriewaldt | 13 October 2008 | 2 years | Yes | Yes | Yes |
| Terry O'Reilly | 13 October 2008 | 2 years | Yes | Yes | No |

[1] 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 Leadership and Management section on pages 63 to 64.

## 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 Leadership and Management section on page 65. Lisa Dalton was assisted by Bob Adams (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 during the financial year are detailed below:

| Name of Director | Board Meetings | | Audit and Risk Management Committee Meetings | | Nomination and Remuneration Committee Meetings | | Special Projects Committee Meetings | | Due Diligence Committee Meetings | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| Keith De Lacy | 28 | 27 | 5 | 5 | 2 | 2 | * | * | * | * |
| Roger Marshall | 28 | 21 | * | * | 2 | 2 | 1 | 1 | * | * |
| Peter Forbes | 28 | 28 | 5 | 5 | * | * | 1 | 1 | 8 | 8 |
| Nicole Hollows | 28 | 26 | * | * | * | * | * | * | 8 | 5 |
| Chen Zeng | 28 | 26 | * | * | * | * | 1 | 1 | * | * |
| Martin Kriewaldt | 28 | 24 | * | * | 2 | 2 | * | * | * | * |
| Terry O'Reilly | 28 | 27 | 5 | 5 | * | * | 1 | 1 | * | * |

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 against the ASX Corporate Governance Principles and Recommendations (2nd Edition) ("ASX Principles"). The Company's corporate governance practices comply with the ASX Principles unless otherwise stated.

Macarthur Coal's corporate governance framework is based on the philosophy that to achieve the Company's vision as an independent, growth focused coal producer delivering long-term shareholder value, 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.

Macarthur Coal acknowledges the release by the ASX Corporate Governance Council of changes to the Corporate Governance Principles and Recommendations (2nd Edition) on 30 June 2010. In the 2011 financial year we will endeavour to adopt the changes early and in particular, in respect of the diversity initiatives, report against the new recommendations in respect of the year ending 30 June 2011.

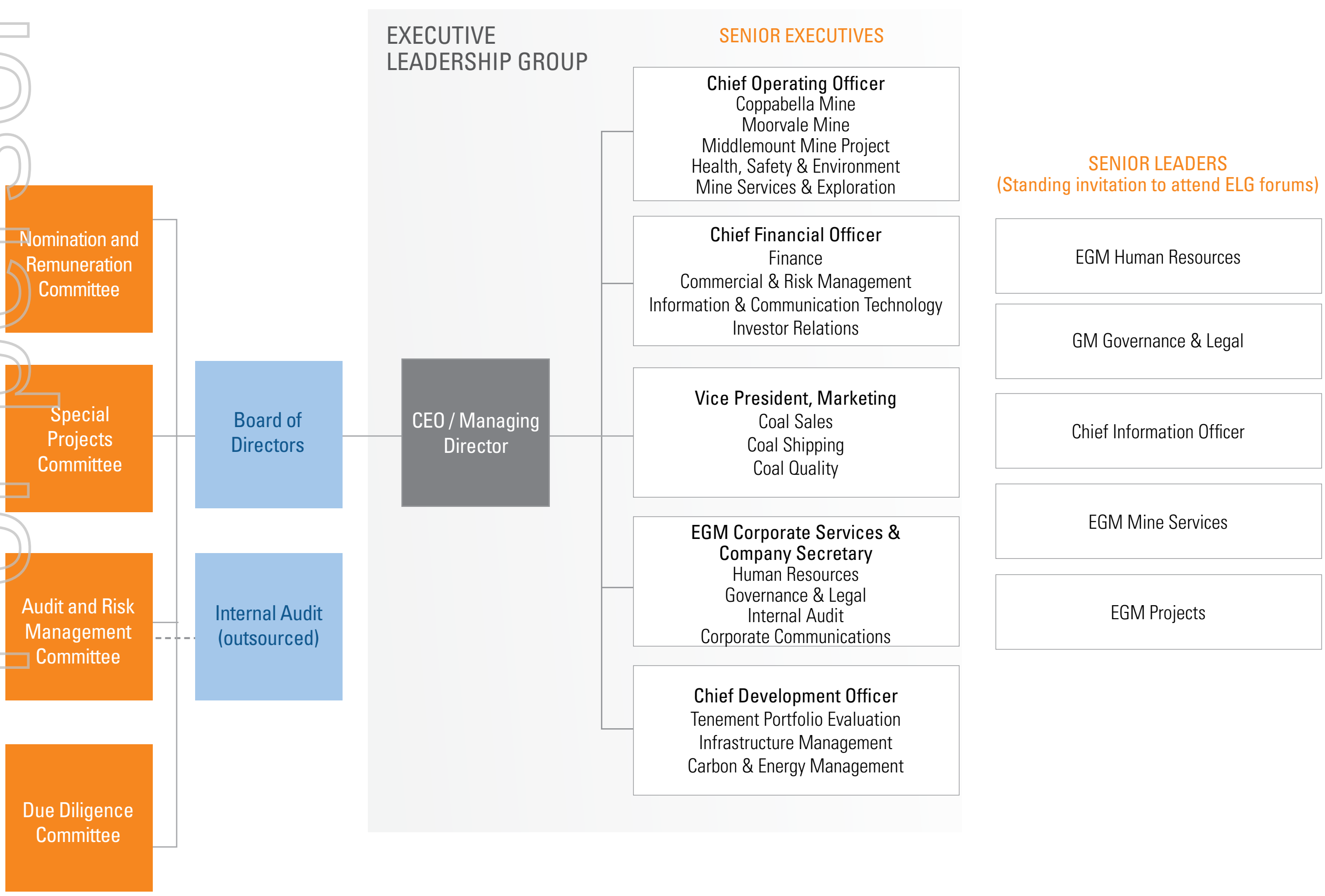
### 4.1 Board and Management Roles and Responsibilities

#### 4.1.1 Snapshot

| PRINCIPLE 1: The Board and Management are clear about their roles and responsibilities | | | |
|---|---|---|---|
| How we comply with Principle 1 | | Section reference | 2010 Overview |
| 1.1 | The Board operates under a Board Charter and has in place documented delegations of authority between the Board and Management which outlines functions reserved to the Board and those delegated to Management<br>To ensure Directors clearly understand corporate expectations of them, all Directors receive a letter of appointment which, together with an induction programme, ensures all Directors upon their appointment obtain a detailed overview of the Company, its strategic direction and its business | 4.1.4 | The Company undertook a review of 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<br>A review of the role of the Board and the Chairman was also undertaken during the year as part of an evaluation of Board performance. A summary of the key components of the review can be found at section 4.2.8 |
| 1.2 | Senior Executives are provided with letters of appointment, a clear position description and a structured induction programme | 4.1.9 | |
| 1.3 | There has been no departure from the Guide to reporting on Principle 1:<br>• performance evaluations for the CEO and Senior Executives have taken place during the year – refer to the Remuneration Report for full details<br>• **www.macarthurcoal.com.au** contains links to our Board Charter, Directors Code of Conduct and a summary of the Delegation of Authority Policy in place between the Board and the CEO | 5 | |

#### 4.1.2 Board and Management Governance Structure

The diagram below provides an overview of the Board, Board Committees and Executive Leadership Group structure in place which underpins oversight by the Board in its role as the Company's governing body.



### 4.1.3 The Board

The Board had seven members throughout the year, the majority of which are independent, Non-Executive Directors.

The Board operated with four Committees during the year to assist it with oversight of various aspects of Company performance and governance. Each Committee operated under a written Charter approved by the Board:

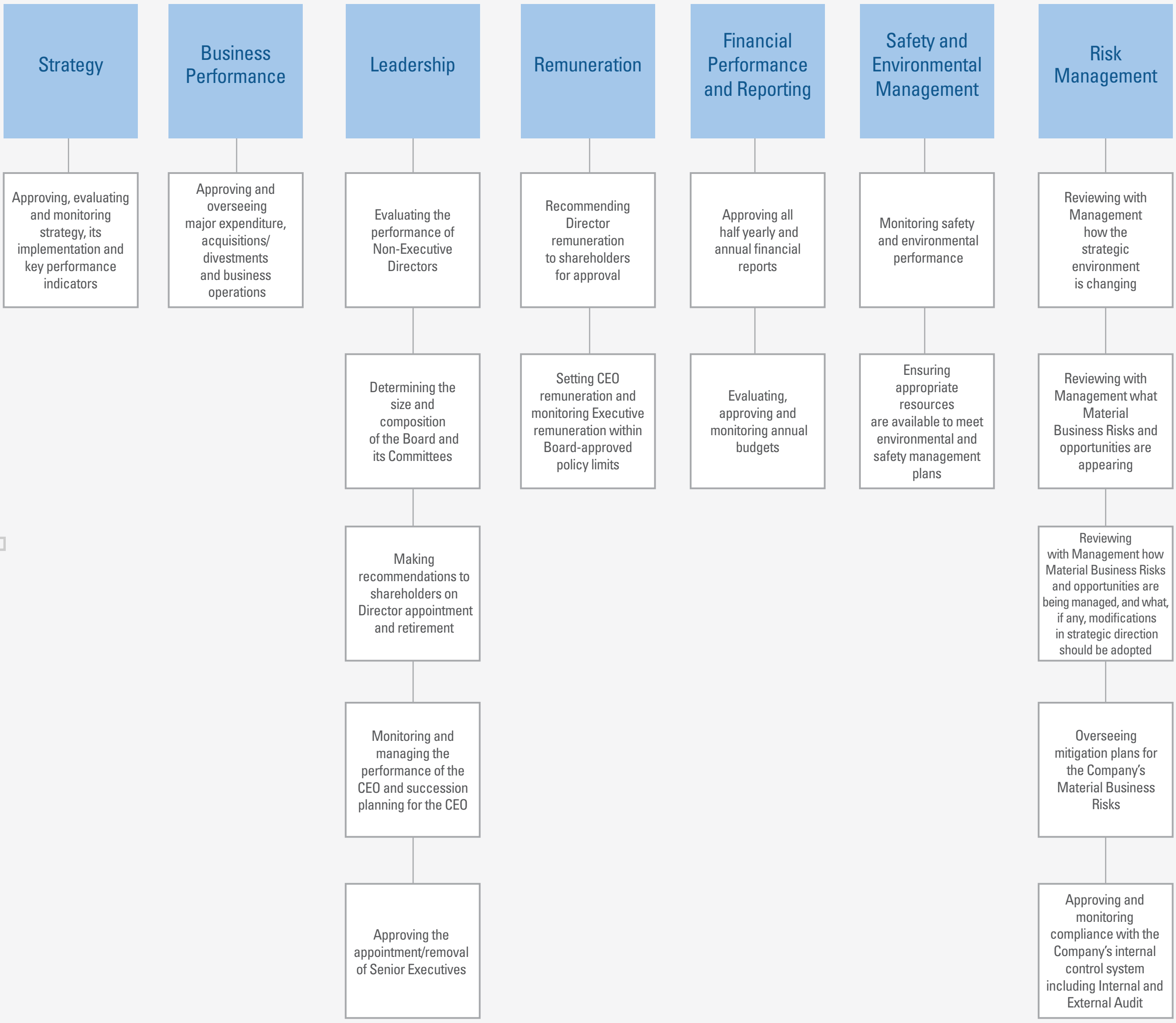
| | | |
|---|---|---|
| Audit and Risk Management Committee (ARMC) | The ARMC is responsible for monitoring internal controls and risk management, related party transactions, external reporting, appointing external and internal auditors and receiving reports from the auditors | see section 4.4.2 |
| 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 and the appointment and remuneration of Senior Executives | see section 4.2.5 |
| Special Projects Committee (SPC) | The SPC is responsible for reviewing, analysing and providing guidance to Management on special projects that may arise from time to time | see section 4.2.6 |
| Due Diligence Committee (DDC) | The DDC was established in January 2010 to oversee the due diligence system and process for the preparation of the Bidders Statement for the off-market takeover of Gloucester Coal Limited | see section 4.2.7 |

### 4.1.4 The Board's Role

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

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

FUNCTIONS RESERVED TO THE BOARD



### 4.1.5 Key Activities of the Board During the Year

The Board met 28 times during the year, a significant increase on its number of meetings in 2009 and a direct result of the corporate activity faced by the Company in the latter part of the 2010 financial year.

A key decision made by the Board during the year was to acquire Gloucester Coal Limited and Noble Group's interest in Middlemount Coal Pty Ltd. Following change of control proposals from Peabody Energy Corporation and New Hope Coal Limited, and subsequent delays to the completion of the Gloucester and Middlemount transactions, Noble Group Limited shareholders did not approve the sale by Noble Group of its interest in Middlemount. Following the non-completion of the Middlemount transaction, the takeover of Gloucester Coal was terminated by mutual agreement in May 2010. This was a period of intense corporate activity for the Company.

In addition to this corporate activity, the Board also considered major business decisions including capital projects involving the development of Middlemount Mine project, ongoing exploration activity, a review of the Company's strategy and an externally facilitated review of the performance of the Board, Chairman, individual Directors and the CEO.

### 4.1.6 The CEO

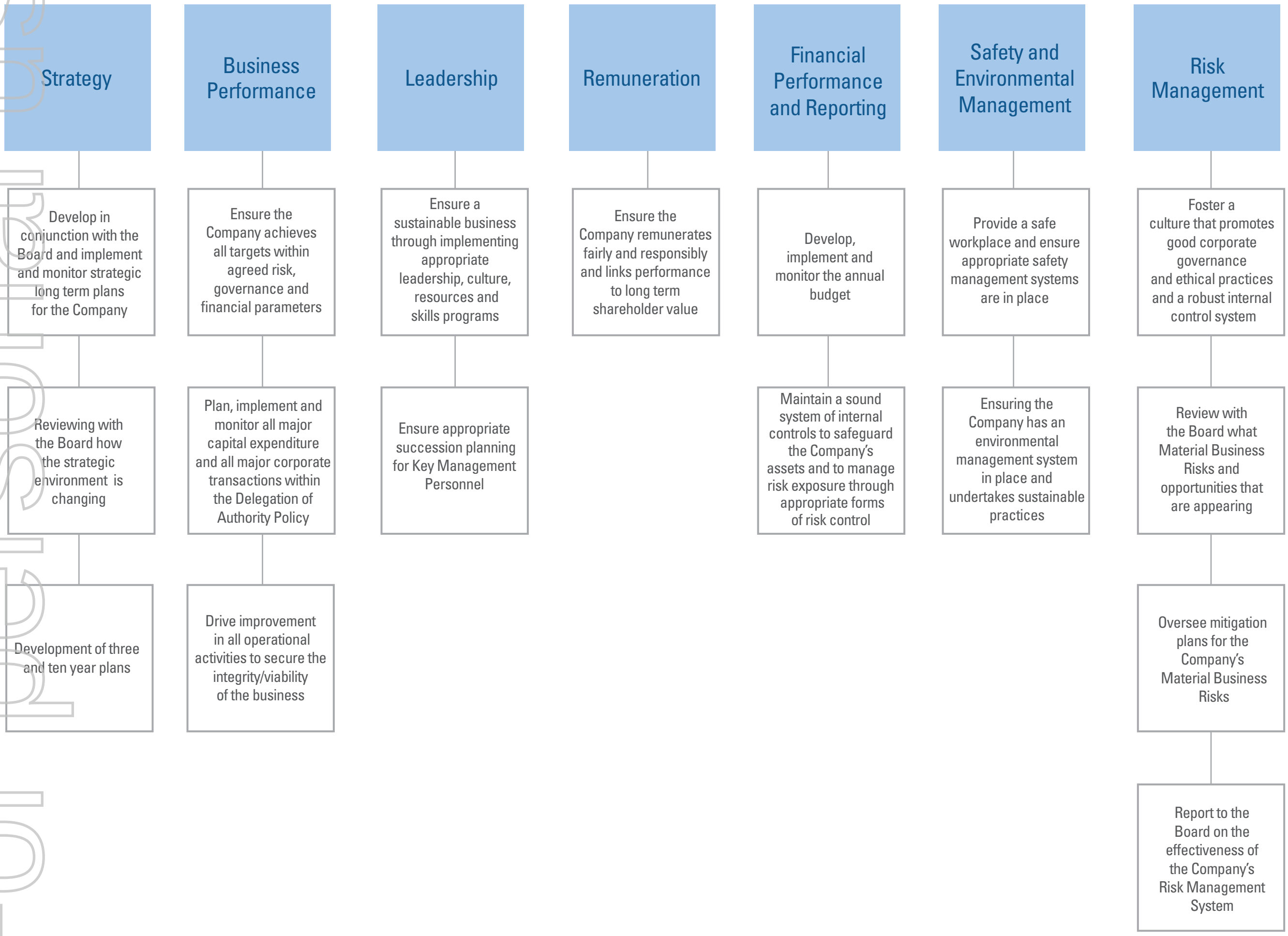
The CEO manages strategy execution and the day to day operation of the business assisted by the Senior Executives.

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.

In addition, 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:

Functions Delegated to Chief Executive Officer



### 4.1.7 Management's Role

The CEO with the support of the Senior Executives provide leadership to Macarthur Coal and the respective business units and are responsible for the day to day management of the business in a sustainable manner ensuring the effective implementation and communication of strategies, business plans, projects and policies as approved by the Board.

The CEO and Senior Executives constitute the Executive Leadership Group (ELG) which is accountable for:

- 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
- Leading principal and major business issues as they arise
- Monitoring the Material Business Risk 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 wide policies and procedures
- Leading organisational development and culture initiatives to ensure structure, systems, and skills are aligned with corporate strategy.

### 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 during each quarter (see 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 and in the case of Senior Executives, employment contracts and position descriptions which set out the Company's expectations and their roles and responsibilities.

Induction programmes are tailored to the specific individual taking into account their skills and expertise. In addition, a corporate wide induction programme is undertaken on a quarterly basis. It ensures consistency and clarity on the key points that need to be communicated to people joining the Company.

Newcomers to the business have access to documentation within the management governance framework which communicates the responsibilities of the Board, its Committees, CEO, CFO, Company Secretary, other Senior Executives and the ELG as well as setting out the Company's expectations on governance. This year, we reviewed roles and accountabilities across the business to ensure alignment of roles with strategy and business objectives. The outcome of the exercise was a greater appreciation of individual roles and accountabilities (documented in updated position descriptions) and an updated organisational structure. The diagram below provides an overview of Macarthur Coal's governance documentation framework.

### 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 Programme with a formal one-on-one review undertaken every six months. The process for evaluating the performance of the CEO and Senior Executives, and the outcomes of the reviews conducted during the financial year and any departures from the process, are set out in the Remuneration Report (section 5).

**Board, Committees and Directors**

- Board Charter
- Director Letter of Appointment and Induction Process
- Directors Code of Conduct
- Committee Charters

**CEO, CFO and Company Secretary**

- Board Charter
- Delegation of Authority Policy
- Position Descriptions and Contracts of Employment
- Code of Conduct

**Senior Executives and ELG**

- Position Descriptions and Contracts of Employment
- Delegation of Authority Policy
- Code of Conduct
- ELG Terms of Reference

**Management Governance**

| Tools and Systems | Codes and Policies | Procedures and Guidelines |
|---|---|---|
| Business Planning Cycle | Code of Conduct | Segregation of Duties |
| Corporate Scorecards | Delegation of Authority Policy | Fraud and Corruption Policy |
| Material Business Risk Register and Mitigation Plans | Risk Management Policy and Framework | Share Trading Policy |
| Performance Management System | Health, Safetly and Environment Policy | Whistleblowers Policy |
| Tenement Management System | Sustainability Policy | Short Term Investments |
| Commitments Register | Continuous Disclosure Policy | Media Policy |
| Document Management System | Shareholder Relations Policy | Contracts and Commitments Procedures |
| Enterprise Resource Planning System | Human Resources Policy | Information and Communication Technology Acceptable Use Policy |
| Life of Mine Planning System | Remuneration Policy | |
| Budgeting and Forecasting System | Crisis Management Plan | |
| | **Management Committees** | |
| | Executive Leadership Group | |
| | Business Performance Group | |
| | Safety, Environment and Carbon Committee | |
| | Projects and Infrastructure Committee | |
| | Treasury Committee | |

## 4.2 Structuring the Board to Add Value

### 4.2.1 Snapshot

**PRINCIPLE 2: The majority of the Board is independent and consists of Directors with skills and expertise sufficient to discharge their responsibilities and duties to the Company**

| | How we comply with Principle 2 | Section reference | 2010 Overview |
|---|---|---|---|
| 2.1 | The majority of the Board is independent and our Board Charter contains a procedure for Directors to have access to independent professional advice at the Company's expense. Directors are required to disclose situations which may impact their independence at every Board meeting | 4.2.2 | An externally facilitated evaluation of Board and individual Director performance has been undertaken. The evaluation focused on reviewing the Board's role and performance, the Chairman's role and performance, and a peer review of individual Directors. Refer to section 4.2.8 for details |
| 2.2 | Mr Keith De Lacy, the Chairman of the Board, is an Independent Non-Executive Director and the Chair's role is set out in the Board Charter | 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) with a majority of independent Directors | 4.2.5 | |
| 2.5 | An externally facilitated review of Board and individual Director performance has been undertaken | 4.2.8 | |
| 2.6 | All the information set out in the Guide to Reporting Principle 2 has been provided in this report:<br>• skills, experience and expertise of Directors and period of office<br>• independence of Directors and relationships impacting independence<br>• access to independent professional advice<br>• names of members of the NRC, attendance at meetings<br>• performance evaluation for the Board, its Committees and Directors<br>www.macarthurcoal.com.au contains links to the NRC Charter (including the procedure for selection and appointment of new Directors) and the Company's constitution which sets out the rules for retirement and re-election of incumbent Directors | <br><br>1<br>3<br>4.2 | |

### 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 judgement 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 Macarthur Coal's vision. Refer to pages 63 to 64 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 which is a standing agenda item for Board meetings facilitates an assessment by the Board of the continuing independence or otherwise of Directors.

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

**Independent, Non-Executive Directors**

Keith De Lacy (Chairman), Peter Forbes (Chairman ARMC), Martin Kriewaldt and Terry O'Reilly

- not substantial shareholders
- no material business relationships with the Company or other circumstances that would impact independent judgement.

**Non-Executive Directors**

Roger Marshall (Deputy Chairman), and Chen Zeng

- Mr Marshall had a prior relationship with CITIC, the Company's largest shareholder (until January 2009) and provided consulting services to Macarthur Coal until December 2007
- Mr Zeng is Managing Director of CITIC Australia Pty Ltd. The CITIC Group 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 judgement and thinking by Directors, all Directors, at the Company's expense and with the consent of the Chairman, may obtain independent advice concerning any aspect of Macarthur Coal's operations from time to time. The Chairman may determine that any advice received by an individual Director will be circulated to the remainder of Directors.

### 4.2.4 Role of the Chairman

The Chairman, Mr Keith De Lacy, 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

- ensuring Directors are informed of all matters
- providing guidance and mentoring to the CEO
- overseeing the evaluation of the CEO through the NRC
- ensuring an annual Board evaluation is undertaken.

In 2010, the Chairman's performance was the subject of an externally facilitated review. The Chairman has made himself available to stand for re-election as a Director by Shareholders at the 2010 Annual General Meeting in accordance with the requirements of the Company's constitution and has the support of the Board to stand for re-election.

### 4.2.5 Nomination and Remuneration Committee (NRC)

The NRC operates under a Board-approved Charter. The Charter includes a Policy and Procedure 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 procedures set out in the NRC Charter. 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 Policy contains factors required to be considered in appointing a new Director and includes:

- 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.

Attendance at NRC meetings is detailed in the table of Directors' meetings on page 67. Membership of the NRC and its areas of responsibility are summarised in the diagram below:

**Nomination and Remuneration Committee**

**Keith De Lacy** (Chairman from 13 June 2003)
**Roger Marshall** (Member from 13 June 2003)
**Martin Kriewaldt** (Member from 18 November 2008)
**Lisa Dalton** (Committee Secretary from 24 May 2007)

| Director Selection | Director Remuneration | Board Evaluation | CEO Remuneration and Evaluation | Senior Executive Appointment, Remuneration and Incentives |
|---|---|---|---|---|
| Identifies, shortlists and recommends appointment of new Directors in accordance with policy and procedure for Director appointment | Reviews and establishes Director remuneration | Oversees the evaluation of Board, Board Committees and individual Directors in accordance with guidelines documented in NRC Charter | Considers and makes recommendations to the Board on CEO's remuneration and performance | Approves appointments remuneration, role changes and terminations of Senior Executives |
| | | | | Monitors the effectiveness of the Human Resources Strategy and Remuneration and Human Resources Policies |

### 4.2.6 The Special Projects Committee

The Special Projects Committee (SPC) operates under a Board-approved Charter, a copy of which is available on our website at **www.macarthurcoal.com.au.** The SPC is responsible for reviewing, analysing and providing guidance to Management on special projects that may arise from time to time. This includes providing guidance and recommendations during pre-feasibility and feasibility stages of various projects and overseeing due diligence processes prior to recommendations being made to the Board for approval of a special project. SPC membership and summary of its role are as follows:

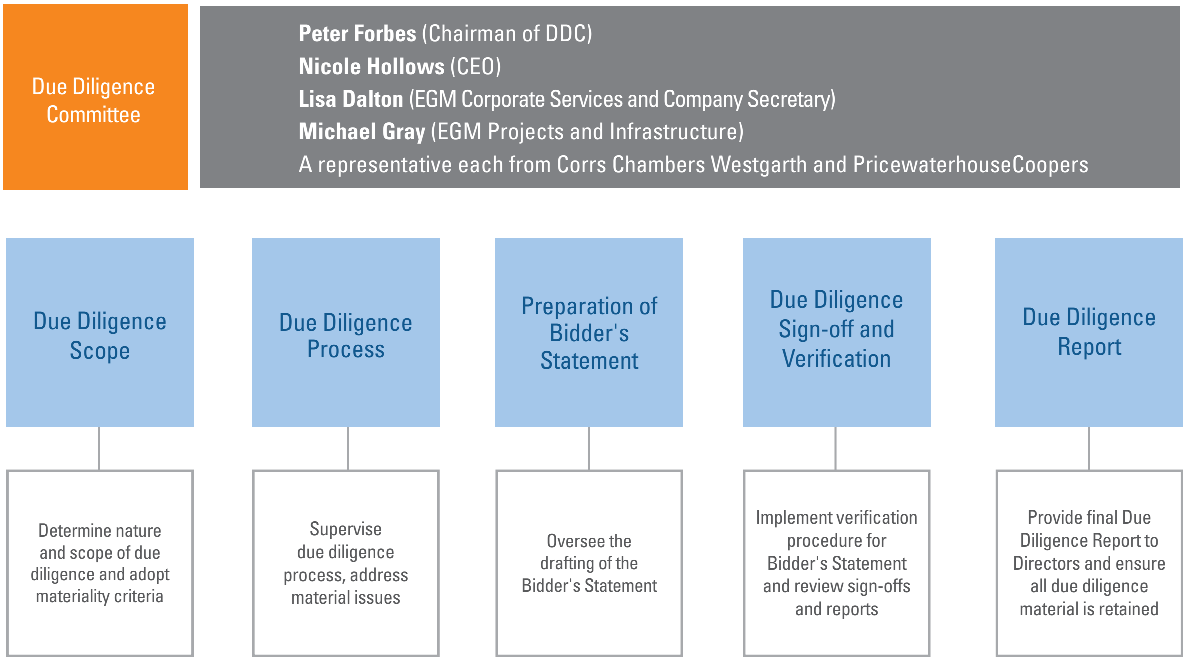
| Special Projects Committee | Members | Role |
|---|---|---|
| Special Projects Committee | Peter Forbes (Chairman from16 August 2007)<br>Roger Marshall (Member from 11 August 2008)<br>Chen Zeng (Member from 16 August 2007)<br>Terry O'Reilly (Member from 18 November 2008)<br>Lisa Dalton (Committee Secretary from 16 August 2007) | Reviewing, analysing and providing guidance on special projects from time to time. The Committee's primary focus for the 2011 financial year will be overseeing, in conjunction with Management, progress on the execution of the Company's sustainable growth strategy |

The CEO, Chief Development Officer and Chief Financial Officer attended the SPC meetings by invitation.

In 2010 the SPC had input into the Middlemount Mine project, development of the tenement portfolio and budget parameters and targets for 2011.

### 4.2.7 The Due Diligence Committee

The Board appointed members of a Due Diligence Committee on 19 January 2010 to co-ordinate, conduct and supervise the due diligence process for the preparation of the Bidder's Statement and to ensure a system of due diligence was followed to enable the Board to be satisfied that the Bidder's Statement, for the off-market takeover of Gloucester Coal Limited, complied with the Corporations Act. All directors of Macarthur Coal had a standing invite to attend Due Diligence Committee meetings.




### 4.2.8 Board, Committee and Director Evaluations

An externally facilitated evaluation of Board and individual Director performance, managed by the Chairman, was undertaken during the year. There were four areas of focus in this year's evaluation of Board and Director performance. The summary of the outcome of the reviews is as follows:

| Area evaluated | Outcome |
|---|---|
| Strength of the Board | The review identified that the strength 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 from all members of the Board |
| Major Achievements | Major achievements of the Board over the past 12-18 months were identified as navigating the Global Financial Crisis (a very challenging period for the Company and its people) and managing the intense period of corporate activity including a vast array of issues involving legal obligations, disclosure and communication |
| Areas of Board Focus | Areas identified for Board focus in 2011 include a review of the Company's long-term strategy and goals |
| Board Reporting and Governance Documentation | Board reporting and governance documentation was found to be generally robust and sound. In 2011 we will focus on reviewing the overall quality and effectiveness of Board papers and ensuring governance documentation reflects the Company's governance framework, with particular focus on Risk Management and Compliance |

### 4.3 Ethical and Responsible Decision Making

#### 4.3.1 Snapshot

**PRINCIPLE 3:** Macarthur Coal promotes ethical and responsible decision making by its Directors and staff and uses a number of tools to ensure this happens including:

- constantly referring to the Four Pillars for guidance when making decisions, and when communicating and interacting between ourselves and with our stakeholders
- ensuring Codes of Conduct for Directors and employees are in place and regularly referred to
- being clear about the Company's expectation when Directors, officers and employees trade in the Company's shares

| | How we comply with Principle 3 | Section reference | 2010 Overview |
|---|---|---|---|
| 3.1 | We have in place both a Directors Code of Conduct and Code of Conduct for all staff and contractors<br>Compliance with these Codes is underpinned by a Whistleblower's Policy | 4.3.2 | Reviews undertaken during the year assessed performance of the Board, Chairman, individual Directors, the CEO and the Senior Executives against the Company's Four Pillars. Our Talk Straight Pillar facilitates open discussion about behaviours |
| 3.2 | We have a Share Trading Policy in place which is regularly communicated and referenced | 4.3.4 | |
| 3.3 | There has been no departure from Principle 3<br>**www.macarthurcoal.com.au** contains links to our Codes of Conduct, Whistleblower and Share Trading Polices | | No breaches of the Company's share trading policy were identified during the year |

#### 4.3.2 Ethical Standards and Codes of Conduct

All Directors and employees are expected to adhere to certain basic principles in all activities in recognition of the fact that Macarthur Coal's reputation is an essential element of its success. Underpinning our expectations of Directors and employees are the Company's Four Pillars (Company values) which guide how we interact with others on a daily basis. The Sustainability section of the Annual Report from page 43 provides greater details on our Four Pillars. Our performance management process also contains a component which assesses performance against the Four Pillars which support the minimum ethical standards expected in the Company.

Specific ethical requirements for Directors and employees are contained in the Company's Corporate Code of Conduct and Directors Code of Conduct. The Codes of Conduct:

- are designed to maintain confidence in the integrity of Macarthur Coal
- set out basic principles Directors and employees should follow in dealings related to Macarthur Coal
- encourage individuals to be fully versed in the laws affecting their responsibilities and to report unethical practices.

In addition, the Company has a Fraud and Corruption Policy, the objective of which is to protect the revenue, property, information and other assets of the Company from any attempt - either by members of the public, contractors or its own employees - to gain by deceit, financial or other benefits.

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

An assessment of how we adopt the Company's values was undertaken for the Board, the CEO, Senior Executives and all employees during the year.

| 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: | |
|---|---|
| Directors' Code of Conduct | • behaviour that serves the best interests of Macarthur Coal<br>• exercise of care and diligence<br>• proper use of information<br>• declarations and protocol for managing conflicts of interest<br>• full and frank disclosure of potential or actual conflicts of interest<br>• enquiring, open and independent processes at meetings<br>• maintenance of confidentiality<br>• avoidance of any activity which could bring Macarthur Coal into disrepute<br>• adherence to all corporate governance policies<br>• devotion of sufficient time to execute duties<br>• compliance with the spirit as well as the letter of all laws<br>• trading in company securities in accordance with the Company's Share Trading Policy<br>The Directors' Code of Conduct can be accessed on the Company's website at **www.macarthurcoal.com.au** |

| The Corporate Code of Conduct applies without exception and sets out the standards to which Directors and employees will adhere in conducting business, including: | |
|---|---|
| Corporate Code of Conduct | • commitment to shareholders<br>• compliance with the law<br>• environmental protection<br>• occupational health and safety<br>• equal employment<br>• confidentiality<br>• conflict of interest<br>• general conduct<br>• reporting unethical behaviour<br>Employees are requested to sign compliance certificates and disclose any issues of which they were aware that could impact the application of the Code to management practices<br>The Corporate Code of Conduct is accessible to all staff through our intranet and can be accessed on the Company's website at **www.macarthurcoal.com.au** |

#### 4.3.3 Conflicts of Interest

Directors 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, common law, 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 and employees from hedging the economic risk of a holding in unvested shares in the Company.

Key elements of the Policy are:

- an explanation of the need for a Share Trading Policy
- details of permissible and prohibited trading periods
- details of who to contact to seek approval should 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 can be accessed on the Company's website at **www.macarthurcoal.com.au**

#### 4.3.5 Fraud and Corruption Policy

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

The Policy also details a procedure for reporting and investigating possible fraudulent or corrupt activity.

#### 4.3.6 Whistleblower Policy

The Whistleblower Policy documents the internal process for making and handling reports by staff of inappropriate conduct of individuals within the Company (whistleblowers).

A simple, clear policy and process to support staff in raising concerns as to the conduct of individuals within the Company, free from recriminations and harassment, is essential and underpins the effective operation of the Company's Risk Management Framework, Fraud and Corruption Policy and the Company's Codes of Conduct.

The Whistleblower Policy can be accessed on the Company's website at **www.macarthurcoal.com.au**

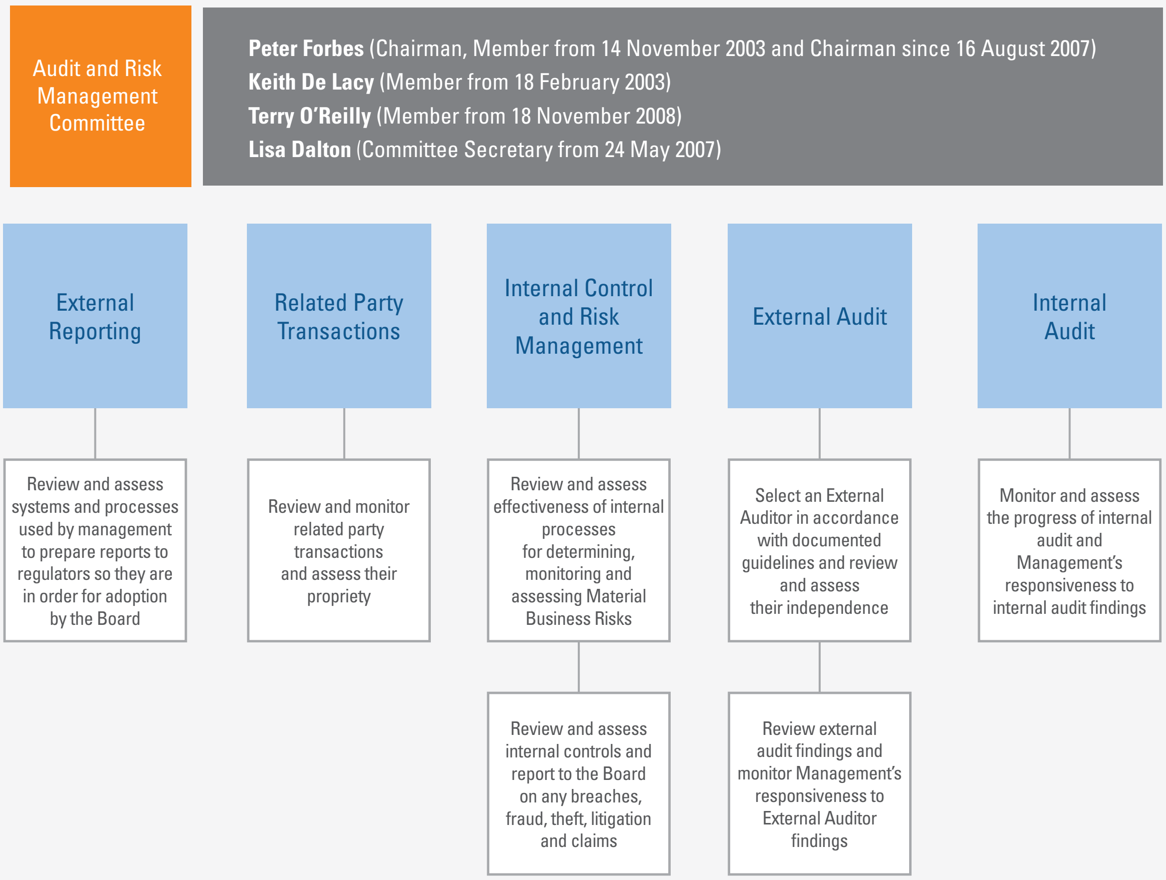
### 4.4 Safeguarding Integrity in Financial Reporting

#### 4.4.1 Snapshot

| PRINCIPLE 4: We believe our systems and controls independently verify and safeguard the integrity of our financial reporting | | | |
|---|---|---|---|
| How we comply with Principle 4 | | Section reference | 2010 Overview |
| 4.1 | We have an Audit and Risk Management Committee (ARMC) that met five times during the year | 4.4.2 | The ARMC Charter was reviewed during the year. 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<br>Key activities of the ARMC during 2010 included consideration of the Company's Risk Management System and the Material Business Risks, oversight of the internal and external auditors, the evaluation of the half year and full financial reports and the accounting policies and issues impacting those reports |
| 4.2 | The ARMC:<br>• consists of only Independent Non-Executive Directors<br>• members are financially experienced with qualifications and experience relevant to the accountabilities of the Committee<br>• 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 | 4.4.2<br>Page 63 | |
| 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 Principle 4. All information required in the Guide to Reporting on Principle 4 has been included in this report:<br>• ARMC members and their qualifications<br>• attendance at ARMC meetings and the number of meetings<br>Our website **www.macarthurcoal.com.au** contains links to our ARMC Charter which sets out the procedure for the selection and appointment of the External Auditor and for the rotation of external audit engagement partners | 1<br>Page 63 | |

#### 4.4.2 Audit and Risk Management Committee (ARMC)

Membership of the ARMC and its areas of responsibility are summarised below:



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 four meetings at the Committee's invitation during the year and the Internal Auditor, Ernst & Young, attended three 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 Board meeting immediately following an ARMC meeting. The Chairman of the ARMC outlines key points arising in 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
- ensures that the External Auditor has arrangements in place for the rotation of the audit engagement partner. The audit engagement partner for the audit must rotate every five years
- ensures any non-audit services provided by the External Auditor do not compromise the independence of the external audit function.

### 4.5 Making Timely and Balanced Disclosures

#### 4.5.1 Snapshot

| PRINCIPLE 5: Timely and balanced communication with our staff and our stakeholders is integral to our business and has been a key focus in 2010 | | | |
|---|---|---|---|
| How we comply with Principle 5 | | Section reference | 2010 Overview |
| 5.1 | The Continuous Disclosure Policy and Media Policy set clear parameters including accountability for compliance with disclosure obligations under the ASX Listing Rules<br>Shareholders are provided with quarterly, half yearly and annual reports and our website is also used as a communication medium | 4.5.2 | The way we communicate with shareholders, the media, the analyst community and employees was tested on a daily basis in the 2010 financial year as a result of the intense period of corporate activity. The Company made 130 ASX Announcements in FY2010, put in place shareholder information lines, increased briefings to the investment community and held daily briefings with staff during this time<br>The Annual Report contains commentary on the Company's financial results (refer to page 14) |
| 5.2 | There have been no departures from Principle 5<br>**www.macarthurcoal.com.au** contains a summary of our Continuous Disclosure Policy and Media Policy | | |

#### 4.5.2 Continuous Disclosure

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

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

All Macarthur Coal employees, particularly Senior Executives and Leaders, are aware of the Policy, the importance of compliance and the need for all employees to ensure that Macarthur Coal Management is to be made aware of any information which may need to be disclosed to the ASX. Refreshers on this Policy were undertaken during the year, with a focus on the Senior Leaders of the Company given the level of their knowledge and decision making. The CEO or Company Secretary are informed immediately of any matters which have the potential to influence Macarthur Coal's share price or are required to be released to the market. The Company Secretary must immediately provide the information to the CEO (or if not available, the Chairman) who will decide whether the information provided requires disclosure. If considered appropriate, the CEO may consult with the Chairman and other available Directors in making a decision.

#### 4.5.3 Media Policy

A written Media Policy has been put in place to ensure a process is documented and accountabilities identified for contact with and response to the media. The Policy links to the Continuous Disclosure Policy and has as one of its objectives, the need to ensure 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 Listing Rules. In addition, a standing item has been added to every Board agenda to prompt disclosure of changes to relevant or material personal interests.

### 4.6 Respecting the Rights of Shareholders

#### 4.6.1 Snapshot

| Principle 6: We strive to ensure communication with our shareholders is timely and presented in a clear manner | | | |
|---|---|---|---|
| How we comply with Principle 6 | | Section reference | 2010 Overview |
| 6.1 | The Shareholder Communication Policy forms the minimum standards acceptable for communication with our shareholders. Shareholders are provided with regular communication through quarterly, half yearly and annual reports and updates to our website<br>Approximately 63% of shareholders have opted to receive communications from the Company electronically[1] | 4.6.1 | The Company's usual primary communication tool is the website which is updated regularly with Company announcements and news<br>The website was to undergo an upgrade in 2010. Given corporate activity, the upgrade was postponed until 2011 |
| 6.2 | There are no departures from Principle 6<br>**www.macarthurcoal.com.au** contains a summary of how we communicate publicly with our shareholders. Page 52 of our Annual Report also provides further detail | | During 2010, additional communication forums were adopted to ensure shareholders had timely and up to date communication. These included a dedicated shareholder communication information line and additional shareholder correspondence<br>At the 2009 AGM, the Company provided shareholders the opportunity to win a visit to our Coppabella Mine, to meet management and experience firsthand, an operating coal mine. The Company received good feedback on this initiative and the subsequent visit by the winning shareholder and will provide a similar opportunity to shareholders at the 2010 AGM |

1 The Company makes a donation to eTree for every shareholder that opts to receive information electronically: eTree website: www.etree.com.au

Communication objectives and tools are summarised below:

| Communication Objectives |
|---|
| The Company takes its obligations to communicate with shareholders seriously 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<br>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, 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 website. Selective or differential disclosure is precluded thereby ensuring that no individual or group benefits from possession of market sensitive information<br>The Company made 130 ASX announcements during the year, including quarterly, half yearly and annual reports |
| **Website** |
| Macarthur Coal's website contains information on its investments, investor relations (including the share price [subject to a 20 minute delay]), all ASX announcements lodged since listing on the ASX in July 2001, the share registry contact information, the top 20 shareholder list, marketing, and corporate governance documents |
| **Reports to Shareholders** |
| Shareholders are provided with quarterly, half yearly and annual reports. In preparing its reports, Macarthur Coal attempts to present, not only its achievements, but also the challenges that confront the Company so that shareholders are able to form an accurate assessment of the Company. The Company also strives to ensure that language used in shareholder communication is readily understandable and free from unnecessary jargon. To assist readers, the Company provides a glossary of mining industry and financial terminology in each annual report and also makes this available on the Company's website at **www.macarthurcoal.com.au** |

| Shareholder Information Lines |
|---|
| Shareholder communication was a feature of 2010 given the number of change of control proposals Macarthur Coal received and the interest in the Company's own offer to combine certain interests of Macarthur Coal, the Noble Group, Gloucester Coal and CITIC<br>Macarthur Coal delivered prompt advice to shareholders via ASX announcements (64 announcements between December 2009 and May 2010) to keep them abreast of developments and the relevant recommendations from the Board. Details of the takeover of Gloucester Coal and acquisition of assets from third parties were set out in detail in the Notice of Meeting and Explanatory Memorandum which was provided via the ASX and Company website and sent to shareholders who elect to receive notices of meetings<br>The Company also established a shareholder enquiry line to respond to queries about the corporate activity and inform shareholders about the procedures they needed to follow. Contact details were published on all Company ASX announcements<br>In the interest of good communication, the Chairman sent a letter to shareholders providing a summary of the corporate activity and an outline of the future direction of the business. This letter also included commentary on relevant external events including the Resource Super Profits Tax being proposed by the Federal Government (since replaced by the proposed Minerals Resource Rent Tax) |
| **General Meetings** |
| The Company encourages shareholders and other interested parties to attend and participate at its general meetings. The Company views the meetings as open forums that facilitate discussion between the Board, Management and shareholders. The meetings also provide the opportunity to demonstrate the Company's commitment to accountability to shareholders and to gain valuable insight from shareholder feedback. All notices of general meetings and agendas are lodged with the ASX, mailed to shareholders and placed on the Company website. The External Auditor attends annual general meetings and is available to answer questions regarding the audit. Shareholders may submit questions prior to the meetings via email or the website. The rules for convening a general meeting are detailed in the Company's Constitution. Shareholders are welcome to view the Constitution by visiting the Company's corporate office or requesting a copy |

## 4.7 Recognising and Managing Risk

### 4.7.1 Snapshot

| PRINCIPLE 7: Recognise and manage risk | | | |
|---|---|---|---|
| How we comply with Principle 7 | | Section reference | 2010 Overview |
| 7.1 | A written, Board-approved, Risk Management Policy and Framework requires that Macarthur Coal's activities be undertaken within Board-approved risk tolerance levels to protect profitability and assets including management, oversight and reporting of Material Business Risks (MBRs) | 4.7.2 | Continuous reviews by Senior Leaders of risk mitigation plans for each MBR ensures focus on achieving targets. Bi-annual reviews by the Senior Leaders of business unit risk registers helps embed risk management practices into our daily operations<br>A review of the Company's Risk Management Framework including its regulatory and compliance framework was planned for 2010 but delayed until 2011 given corporate activity |
| 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 | 4.7.4 | |
| 7.4 | The Board has also received assurances in writing from the CEO and EGM Finance that the financial reporting risks and associated internal controls are operating effectively in all material respects | 4.7.4 | |
| 7.5 | There have been no departures from Principle 7:<br>• the Board has received a report from Management under Recommendation 7.2 on the management of MBRs<br>• the Board has received assurances in writing from the CEO and EGM Finance<br>**www.macarthurcoal.com.au** has a summary of the Company's Risk Management Policy and Framework | 4.7 | |

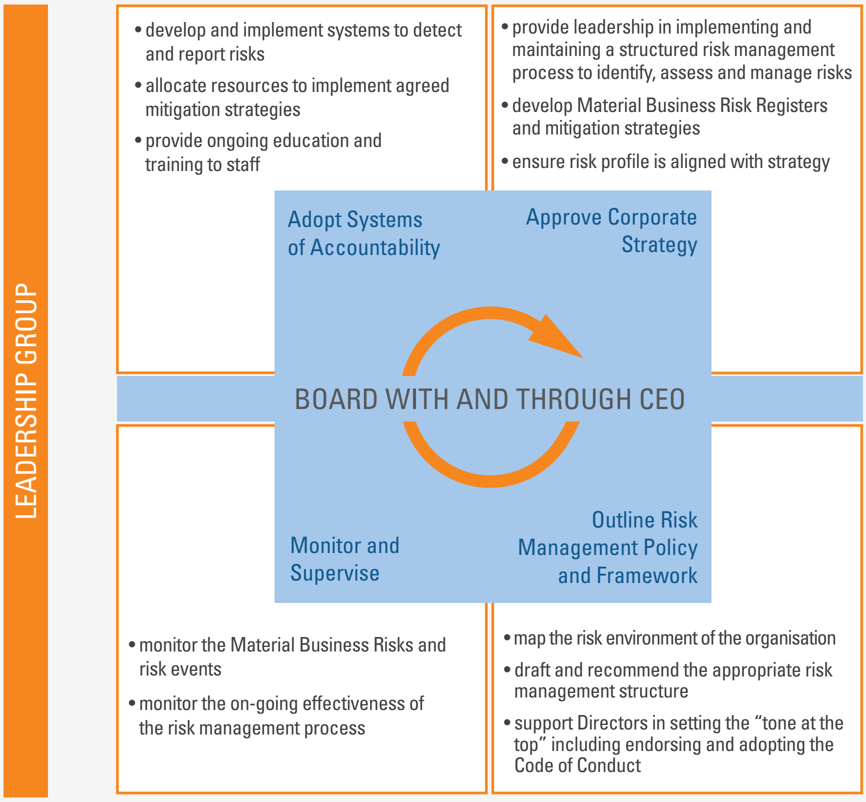
### 4.7.2 Risk Management Framework

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 be 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 the Company's risks.

The diagram on page 81 provides an overview of the roles of the Board and Management in this key governance activity.

## ROLE OF THE BOARD AND MANAGEMENT FOR RISK MANAGEMENT



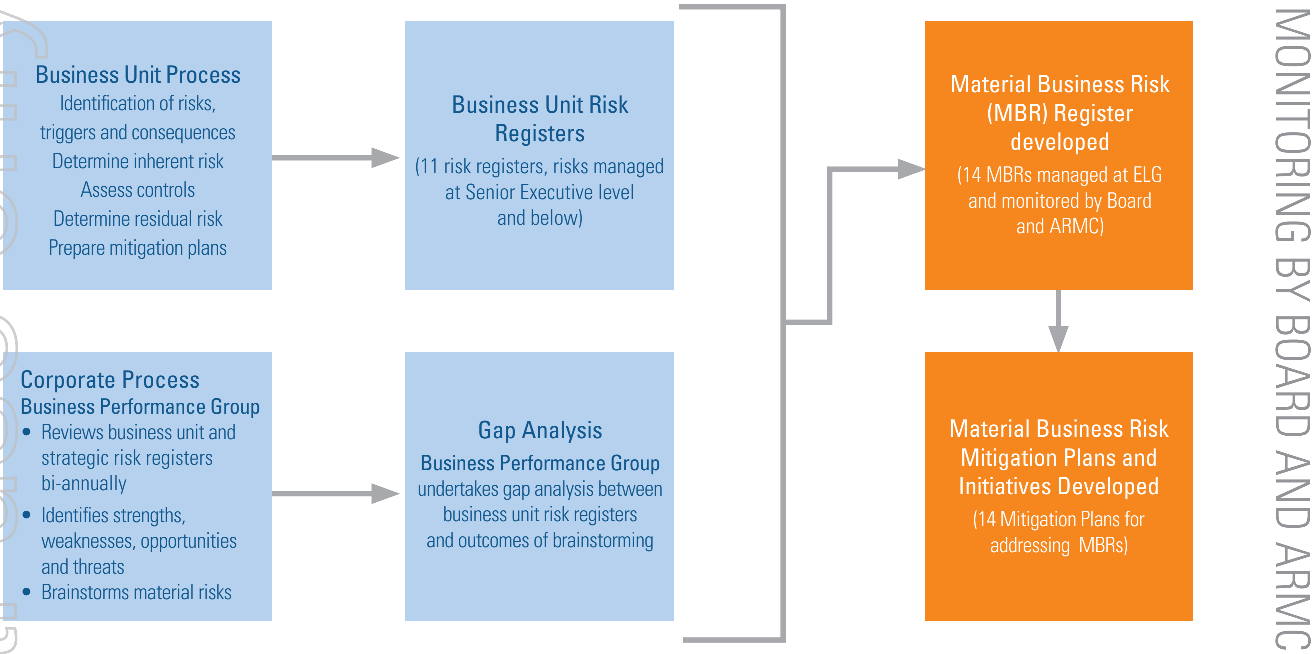

The Risk Management Policy complements Macarthur Coal's other policies, procedures and codes to manage risk. The following are significant policies in place that underpin the Company's Risk Management Framework and practices:

| Policy | Objective |
|---|---|
| Continuous Disclosure | To ensure that price sensitive information is released to the market through a structured process in compliance with the ASX continuous disclosure rules, and that third party briefings are conducted only by authorised personnel |
| Delegation of Authority | To ensure that commitment of Macarthur Coal funds, the subsequent expenditure of those funds and asset disposals are approved by personnel with proper delegated authority |
| Short Term Investments | To ensure that liquidity to meet operational requirements is maintained, that adequate controls are maintained to minimise loss of capital and that only authorised products are used |
| Foreign Exchange | To ensure exposure to currency risk caused by foreign exchange rate volatility is managed and that only well understood hedging products are used |
| Health, Safety and Environment | To ensure maintenance of a safe and healthy work environment where people are protected from injury or illness, our assets are not at risk and a sustainable balance is achieved between economic development and the protection of the natural environment |
| Human Resources | 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 |
| Share Trading | To ensure that all trading in the Company's securities by employees and Directors accords with Macarthur Coal's Share Trading Policy, common law, the Corporations Act and the ASX Listing Rules |
| Fraud and Corruption | To protect Macarthur Coal, its revenue, property, information and other assets from any attempt - either by members of the public, contractors or its own employees - to gain by deceit, financial or other benefits |
| Whistleblowers | 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 |
| Segregation of Duties | To minimise the opportunity for fraud to be committed or an error to be overlooked by ensuring that Macarthur Coal's financial activities are adequately segregated |
| Code of Conduct | To ensure legal and ethical obligations to all stakeholders are met |
| Crisis Management Plan | To provide guidance and parameters for identification and management of a crisis |

The Board has received a report from Management on the Material Business Risks facing the business, the process undertaken to identify and assess those risks, each Risk's Mitigation Plan and the monitoring regime in place. The Board has also received assurances in writing from the CEO and EGM Finance that the financial reporting risks and associated internal controls are operating effectively in all material respects.

### 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 whole of Company Material Business Risks. A diagrammatic representation of the process we undertake to assess, monitor and mitigate material business risks is outlined below:




| | |
|---|---|
| Detailed business risk registers have been developed to document key risks in the areas in which Macarthur Coal operates.<br><br>These areas include: | • strategy<br>• mining operations (including health, safety and environment)<br>• marketing<br>• commercial<br>• infrastructure<br>• exploration and development<br>• finance<br>• human resources<br>• fraud and ethical conduct<br>• information technology<br>• carbon |
| Business unit risk register information includes: | • events with the potential to cause loss<br>• consequences<br>• existing mitigators (i.e. preventative controls)<br>• an assessment of the mitigators<br>• an assessment of residual risk<br>• a judgment on whether residual risk is within Board-approved tolerance levels<br>• action plans to reduce residual risks below tolerance levels |

The Business Performance Group (BPG), made up of Senior Executives and Senior Leaders, develops a corporate-wide risk register that details high and extreme risks impacting the whole of the Company. A gap analysis is then undertaken between the risks identified by the BPG and the risks captured on the business unit risk registers. High and extreme risks from the business unit risk registers and the corporate risk register are then collated, based on materiality, into a MBR register. This process provides assurance that MBRs facing the business from a corporate-wide perspective have been identified.

This process facilitates the development and implementation of risk mitigation plans for each MBR and ensures that accountability for mitigating actions is clear. 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 list identifies the areas in which the Company's MBRs fall and is provided here as context to aid appreciation of the challenges and opportunities faced by Macarthur Coal and the industry generally (the list is by no means exhaustive):

- 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 staff
- damage to reputation

The Company's mitigation plans for each of the MBRs are monitored by Management, the ARMC and the Board. Any changes to the MBR profile are reported to the Board through the CEO's report.

#### 4.7.4 CEO and EGM Finance Sign Off

Part of the Company's Risk Management Framework includes a structured system for assessing, monitoring and managing financial reporting and compliance risks. In order for the CEO and EGM Finance to make the necessary declaration to the Board, a number of tools are used to report any issues that may arise in respect of the internal control environment:

**Internal Policy Compliance**

Familiarisation with the corporate policies is incorporated into the Company's induction programme for all new employees and a summary of Macarthur Coal's policies was provided during the year to employees which included the Company's expectations of compliance by employees with each of the key policies. Policies and procedures are available to all staff through a portal on the Intranet and a system was put in place this year to ensure they are reviewed regularly and that there is clear accountability for stewardship of each policy. Written confirmation of compliance with these policies is obtained from employees. No material issues of non-compliance were reported in the 2010 financial year

**Compliance Control Checklists**

Compliance control checklists undertaken by a management questionnaire process are also used as a tool every six months to gather information on any issues that may have arisen during the year. 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 the half yearly and annual reporting. The checklists 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**

This year, 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. This facilitated a report to the ARMC and Board on the effectiveness of the Company's management of its material business risks

**Business Continuity Testing**

A desktop exercise, testing the Company's Crisis Management Plan (CMP) was undertaken during the year, resulting in suggested enhancements of the CMP. Incorporating these enhancements into a review of the CMP will be a key focus in 2011

### 4.7.5 Internal Audit

Ernst & Young are the Company's internal auditors and have assisted the Board in ensuring compliance with internal control and risk management programs. The internal audit function delivers value-added quality services for continuous improvement of the accountability and management of the Company.

The audit program includes a review of the effectiveness of the compliance and control systems. Audit activity is structured around the risk registers with a focus on the risks identified as having the greatest potential to adversely affect Macarthur Coal.

Areas of focus by internal audit in 2010 were reviews of the Company's:

- tenement management and security of the exploration database
- environmental management system review
- inventory management
- sales and marketing credit risk management, contracting and settlements
- joint venture reporting and compliance with JV arrangements.

## 4.8 Remunerate Fairly and Responsibly

### 4.8.1 Snapshot

| PRINCIPLE 8: Our remuneration structure is designed to attract and retain high calibre people and comprises a performance-based component linked to stretch targets | | | |
|---|---|---|---|
| How we comply with Principle 8 | | Section reference | 2010 Overview |
| 8.1 | The Board has in place a NRC with a Board-approved Charter<br>The Committee consists of a majority of independent Directors, is chaired by the Chairman of the Board and has three members<br>Details of the membership of the Committee and attendance at meetings have been provided in section 3 | 4.2.5 | Key activities of the NRC during the year included:<br>• commissioning, reviewing and actioning recommendations from externally facilitated reviews of remuneration for the Board, CEO and Senior Executives undertaken by Mercer<br>• commissioning a review of Macarthur Coal's overall reward strategy to ensure the Company is able to attract and retain high performing people. The review of the Reward Design Strategy is expected to be completed by 30 June 2011 and the NRG will consider which aspects should be adopted for the 2012 financial year (see section 5.6 of the Remuneration Report) |
| 8.2 | The Company's Remuneration Policy clearly distinguishes the structure of Non-Executive Directors' remuneration from that of the Executive Director and Senior Executives. There is no scheme for retirement benefits, other than superannuation, for Non-Executive Directors<br>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 of the ASX Principles | 5.2<br>5.3.1 | |
| 8.3 | There has been no departure from 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<br>**www.macarthurcoal.com.au** contains links to our Share Trading and NRC Charter | 4.8 | |

## 5 REMUNERATION REPORT

The Remuneration Report explains the Macarthur Coal Group's Remuneration Policy, how it aligns Key Management Personnel performance with the Company's strategic direction and performance as well as setting 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, except for Section 5.3.4 of this Remuneration Report which is unaudited.

The structure of the Remuneration Report is as follows:

| | What it Covers | Section |
|---|---|---|
| Key Management Personnel | Who they are | 5.1 |
| Non-Executive Director Remuneration | Principles and components of Non-Executive Director remuneration | 5.2 |
| | Non-Executive Director remuneration review undertaken during the year by Mercer | 5.2.2 |
| | Non-Executive Director shareholding and interests | 5.2.3 |
| Senior Executive Remuneration | Principles and components of Executive remuneration including:<br>• Total Fixed Remuneration (TFR)<br>• Short Term Incentive Plan (STIP)<br>• Long Term Incentive Plan (LTIP)<br>• Discretionary Bonuses<br>• Retention Bonuses<br>• Employment Contracts | 5.3 |
| | Summary of remuneration, shareholding and interests for Nicole Hollows as CEO and Managing Director and other Senior Executives | 5.3.11 |
| | Directors' and Executive Officers' Remuneration Table | 5.4 |
| Employee Share Plans | Summary of our employee share plans | 5.5 |
| Consequences of Performance on Shareholder Wealth | Link between Company performance and shareholder wealth | 5.7 |

### 5.1 Key Management Personnel (KMP)

The Key Management Personnel (KMP) 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 6 Non-Executive Directors during the year
- Senior Executives – as at 30 June 2010, there were 5 Senior Executives including the Chief Executive Officer (CEO) and Managing Director (MD), Nicole Hollows
- Former Executives – there are 2 Former Executives referred to in the Remuneration Report as they were Senior Executives for part of the year.

The Other Executive included in the Remuneration Report is one of the Top 5 earners of the Group.

**KEY MANAGEMENT PERSONNEL**

| Defined Term | | Name | Position | Date Appointed |
|---|---|---|---|---|
| Non-Executive Directors | | As at 30 June 2010 | | |
| | | Keith De Lacy | Chairman, Independent, Non-Executive Director | 5 July 2001 |
| | | Roger Marshall | Deputy Chairman, 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 | Senior Executives | As at 30 June 2010 | | |
| | | Nicole Hollows | Chief Executive Officer<br>Managing Director | CEO: 7 January 2007<br>MD: 28 June 2007 |
| | | Peter Kane | Chief Operating Officer | 18 February 2008 |
| | | Gary Lee | Vice President, Marketing | 19 January 2004 |
| | | Lisa Dalton | EGM Corporate Services & Company Secretary | 24 May 2007 |
| | | Michael Gray | EGM Projects & Infrastructure | 20 July 2009 |
| | Other Executives[1] | Brian Spencer | General Manager – Coppabella | 14 July 2008 |
| | Former Executives | Stuart Hatton | Chief Financial Officer | Appointed: 18 August 2008<br>Resigned: effective 30 October 2009 |
| | | Shane Stephan | Chief Development Officer | Appointed: 12 February 2001<br>Resigned: effective 21 August 2009 |

[1] Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.

The Group has had a number of people acting in the position of Chief Financial Officer (CFO) pending an appropriate replacement of the former CFO, Mr Stuart Hatton who resigned effective 30 October 2009.

Refer to page 65 for an overview of Macarthur Coal's newly appointed CFO, Graham Yerbury, who will commence in September 2010.

### 5.2 Principles of Non-Executive Director Remuneration

Details of the Non-Executive Directors of the Company for the year ended 30 June 2010 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:

**Aggregate Remuneration Amount**

The aggregate remuneration permitted to be paid to Non-Executive Directors that has been approved by shareholders at the Annual General Meeting in November 2008 is $1.6 million per annum

**Components of Non-Executive Director Remuneration**

Remuneration for Non-Executive Directors consists of:

- Board Fees as remuneration for Board membership with Chairman responsibilities earning an additional amount
- Committee Fees as remuneration for Committee membership with Committee Chairman responsibilities earning an additional amount
- Macarthur Coal Shares (10,000 for each Non-Executive Director per annum) accrued on a daily basis, purchased on market after the announcement of the half year and full year financial results of the Company

**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:

- Chairman $70,000 per annum
- Non-Executive Director $45,000 per annum

**Committee Fees**

| Board Committee | Chairman $ per annum | Member $ per annum |
|---|---|---|
| Audit and Risk Management Committee | 15,000 | 10,000 |
| Nomination and Remuneration Committee | 10,000 | 10,000 |
| Special Projects | 10,000 | 10,000 |
| Due Diligence Committee | 10,000 | n/a |

**Macarthur Coal Shares**

Non-Executive Directors are also entitled to receive 10,000 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 the 10,000 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:

- additional fees to be paid to Non-Executive Directors for additional services. No such fees were paid during the year
- 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.

In addition:

- 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
- the Company contributed to professional development activities for some Non-Executive Directors during the year
- there were no performance-based remuneration amounts paid or options granted to Non-Executive Directors during the year

### 5.2.2 Non-Executive Director Remuneration Review

Mercer was appointed by the Board during the year to benchmark the remuneration and cost of governance of the Macarthur Coal Board against a peer group of companies representative of Macarthur Coal's potential market for Non-Executive Directors.

Two key outcomes from the review were that:

- Remuneration for Non-Executive Directors chairing Committees of the Board should be reviewed in light of broader Australian market practice and a peer group of similar sized Australian listed resource companies', and
- Remuneration for the Chairman of the Board was substantially below the median of the peer group and the ratio of the remuneration paid to the Chairman of the Board to the Non-Executive Directors' remuneration was the lowest ratio of the peer group.

Consequently the Board intends seeking shareholder approval for increases in remuneration for the Board Chairman and Chairmen of the Audit and Risk Management Committee, the Nomination and Remuneration Committee and the Special Projects Committee at the October 2010 Annual General Meeting to align the fees with those of the Australian listed resource companies comprising the peer group.

The proposed increase remains within the total fee cap of $1.6 million per annum approved by Shareholders in 2008.

### 5.2.3 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 | | |
|---|---|---|
| | Ordinary shares | Options over ordinary shares |
| Non-Executive Directors | | |
| Keith De Lacy | 221,740 | Nil |
| Roger Marshall | 171,740 | Nil |
| Peter Forbes | 69,740 | Nil |
| Chen Zeng | 27,500 | Nil |
| Martin Kriewaldt | 15,680 | Nil |
| Terry O'Reilly | 247,984 | Nil |

Non-Executive Directors received Macarthur Coal shares during the year in accordance with the Director Share Plan. On 28 August 2009, Directors received shares for the 2009 financial year. On 16 March 2010, Directors received the first tranche of shares for the 2010 financial year. The second tranche of shares for the 2010 financial year will be purchased on market for Directors in the trading window following the release of the 2010 full year results.

### 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.

### 5.3.1 Components of Executive Remuneration

Executive remuneration for the 2010 financial year had two key components:

| Remuneration Component | Elements | Details |
|---|---|---|
| Fixed Annual Remuneration (Base salary plus statutory superannuation) | 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 |
| Performance Linked Remuneration | 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<br><br>The performance period for the first tranche of performance rights awarded to Executives ended on 30 June 2010 and shares under the LTI Plan for the 2008 performance rights will be purchased on market in the trading window after the release of the 2010 results. Refer to section 5.3.8 for further information on the performance hurdles and the awards to be made under the LTI Plan |

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 | | Peformance Linked Remuneration | | | |
| | Base Salary + Super | | Short Term Incentive | | Long Term Incentive | |
| | 2010 % | 2011 % | 2010 % | 2011 % | 2010 % | 2011 % |
| Senior Executives | | | | | | |
| Nicole Hollows | **47.6%** | 47.6% | **28.6%** | 28.6% | **23.8%** | 23.8% |
| Peter Kane | **55.6%** | 55.6% | **22.2%** | 22.2% | **22.2%** | 22.2% |
| Gary Lee | **62.4%** | 62.4% | **18.8%** | 18.8% | **18.8%** | 18.8% |
| Lisa Dalton | **62.4%** | 62.4% | **18.8%** | 18.8% | **18.8%** | 18.8% |
| Michael Gray | **71.4%** | 66.7% | **14.3%** | 33.3% | **14.3%** | 0% |
| Other Executives[1] | | | | | | |
| Brian Spencer | **80.0%** | 80.0% | **12.0%** | 12.0% | **8.0%** | 8.0% |

[1] Falls within definition of s.300A(1)(c) Corporations Act 2001 as top 5 earner of the Group

The information provided allows comparisons between the 2010 financial year and what has been put in place for the 2011 financial year. When STI Targets (that are performance linked over a 1 year period) and LTI (performance targets over a 3 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 (TFR) for each Executive and employee is reviewed annually having regard to 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.

At the commencement of the 2010 financial year, as a result of the economic conditions, the Board determined that salaries for Senior Executives would remain unchanged unless there was a role change, an anomalous situation or a contractual obligation.

In March 2010:

- Nicole Hollows received a remuneration review after the Board commissioned an external benchmark and review by Mercer of the CEO's remuneration. Refer to section 5.3.11 of the report for further details
- Lisa Dalton received a remuneration review as a result of taking on an expanded role within the organisation and following receipt of the Mercer remuneration benchmark report.

Most employees received a remuneration review in December 2009 driven by a tightening of the job market because of the economic recovery.

At the end of the 2010 financial year, all staff, including Executives underwent a review of their remuneration for the 2011 financial year in accordance with the principles in the Remuneration Policy.

### 5.3.3 Short Term Incentive Plan (STIP)

The goal of the Short Term Incentive Plan (STIP) 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 and 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.

For the 2010 financial year, the Group enhanced its STIP to better align the incentive to overall Group performance so that if the Group performed well, all employees could receive part of the reward. A key component of the STIP was the establishment of Corporate Short Term Incentive (STI) Targets aligning the STIP payments to the achievement of Corporate, group and individual performance measures, a move away from the previous policy where STI Targets were centred primarily around individual performance.

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 2010 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<br>Executives and Senior Leaders in the business had additional Corporate STIs applicable to people and culture |
| **Group/ Individual Short Term Incentive Targets** |
| Specific business unit/ 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 |
| **Minesite – 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 Process for Establishing and Assessing STI Targets - Unaudited

→ Ahead of base and stretch target ← Ahead of base but behind stretch target ← Target not achieved

| Corporate STI Targets | |
|---|---|
| All Staff | Established by the Nomination and Remuneration Committee (NRC) and approved by the Board at the commencement of the 2010 financial year. An assessment of the corporate STI Targets was undertaken at the conclusion of the 2010 financial year and the assessment approved by the Board. The summary of that assessment is: |

| Corporate STI Targets for 2010 | | Results | | |
|---|---|---|---|---|
| | | Senior Executives | Senior Leaders | Mine Site Senior Leaders |
| | | | | |
| Safety | TRIFR | → | → | → |
| NPAT | Budget ($million) | → | → | → |
| MCC FOB Costs | $/prod tonne | ← | ← | n/a |
| Staff Turnover | % voluntary turnover | → | → | → |
| Culture Audit | % satisfaction | ← | ← | ← |
| Learning & Development Plans | % in place | → | → | → |
| | % completed | ← | ← | ← |
| Coppabella FOR Costs | $/prod tonne | n/a | n/a | ← |
| Moorvale FOR Costs | $/prod tonne | n/a | n/a | ← |

| Individual STI Targets | |
|---|---|
| Senior Executives | The CEO in conjunction with the Senior Executives proposed the individual STI targets and the relative weightings of those targets at the commencement of the 2010 financial year. The targets were then submitted to the NRC for approval. At the end of the 2010 financial year, the amount of any incentive payment was determined based on measured achievement against those targets. Senior Executives' performance was assessed by the CEO and the NRC |
| Other Executives (and all other staff) | Immediate supervisors and the employees proposed the individual performance targets and relative weightings of those targets at the commencement of the 2010 financial year. These indicators, assessment outcomes and the quantum of any incentive to be paid was moderated by the ELG and then approved by the supervisor once removed |
| CEO and Managing Director | The Chairman of the Board, NRC and the CEO proposed the individual performance targets and relative weightings of those targets at the commencement of the 2010 financial year. These were then submitted to the Board for approval. At the end of the 2010 financial year, the Board undertook an externally facilitated review of the CEO's performance and assessment of STI Targets, the outcome of which was subsequently discussed, moderated and approved by the Board |

### 5.3.5 Comparison of Maximum STI Entitlement

Short Term Incentive entitlements as a maximum percentage of total fixed remuneration for 2010 and 2011 are:

| STI as maximum % of TFR [1] | | |
|---|---|---|
| Position | FY2010 | FY2011 |
| CEO and Managing Director | 60% | 60% |
| Senior Executives | 20-40% | 20-50% [2] |
| Other Executives and Senior Leaders | 10-20% | 10-20% |
| Employees | 10% | 10% |

[1] Specific information relating to amounts of STI paid to Executives is set out in section 5.4

[2] Michael Gray is entitled to an STI of up to 50% for the 2011 financial year (of which up to 20% will be deferred for 12 months). This increase in STI is in consideration of Mr Gray accepting a secondment to Middlemount Coal Pty Ltd

### 5.3.6 Discretionary and Retention Bonuses in 2010

- **Discretionary Bonuses awarded by the Board in 2010**

During 2010 the Company negotiated and entered into agreements with Noble Group Limited, Gloucester Coal Limited and the CITIC Group to acquire:

- 100% of Gloucester Coal Ltd ("Gloucester") through an off-market takeover offer
- Noble Group Limited's ("Noble") interest in the Middlemount JV, taking Macarthur's ownership to 100% including all marketing rights for Middlemount product
- CITIC Resources Holdings Limited's ("CITIC Resources") direct interests in the Coppabella and Moorvale Joint Venture and intention to terminate marketing rights to China and India

A small project team was established within Macarthur Coal to oversee these transactions, including the negotiation and finalisation of agreements for these transactions. In recognition of the efforts of this project team, including additional hours worked, the Board awarded a discretionary bonus of up to 10% of Total Fixed Remuneration to members of the project team including the CEO and Company Secretary. The transactions subsequently were not consummated and were impacted by change of control proposals received by the Company prior to completion.

- **Retention Plan established by the Board in 2010**

Between March 2010 and May 2010, the Company was the subject of intense corporate activity which included four change of control proposals from Peabody Energy Corporation and two change of control proposals from New Hope Coal Limited. This intense corporate activity followed a period of five to six months of negotiating an off-market takeover of Gloucester and the acquisition of Noble Group Limited's interest in Middlemount Coal Pty Ltd.

The Board approved a Retention Plan to mitigate the real risk of a talent exodus from the business caused by the period of corporate activity. The Retention Plan provides a financial incentive for staff to stay and work towards continuation of business at Macarthur Coal. The Retention Plan has two key applications:

| Position | Retention Plan Components |
|---|---|
| Group Executives and Senior Leaders[1] | Cash incentive linked to TFR for remaining in the employment of the Group for a 12 month period |
| All other staff | Cash incentive equivalent to 100% of STI payment and in lieu of an STI payment |

[1] Group Executives' participation in the STIP remains subject to meeting Corporate, group and individual STI Targets assessed at the end of the 2010 financial year. Participation in the Retention Plan is in addition to participation in the STIP

The percentage of TFR was set at a level to provide a strong incentive for staff to stay. In determining the percentage, consideration was given to the findings by Mercer when it surveyed 22 multinational companies routinely involved in M & A transactions. Consideration was also given to the cost to the business if it had to recruit senior staff as a result of high turnover in that area.

### 5.3.7 Analysis of Short Term Incentive Bonuses and Discretionary Bonuses Awarded by Board Included in Remuneration

Details of the vesting profile of the STI cash bonuses awarded as remuneration and the Discretionary Bonuses awarded by the Board to each of the relevant Group Executives are detailed below.

| Short Term Incentive and Discretionary Bonuses 2010 | | | |
|---|---|---|---|
| Executives | Included in remuneration[1,5] $ | STI Vested in year % | STI Forfeited in year[2] % |
| Nicole Hollows | 774,450[3] | 77 | 23 |
| Peter Kane | 213,075 | 72 | 28 |
| Gary Lee | 164,385 | 78 | 22 |
| Lisa Dalton | 170,080[4] | 80 | 20 |
| Michael Gray | 104,111 | 68 | 32 |
| Brian Spencer | 98,258 | 74 | 26 |

[1] 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 2010 financial year

[2] The amounts forfeited are due to some STI Targets not being met in relation to the current financial year

[3] Includes discretionary bonus awarded by the Board of $60,000 (10% of TFR) in January 2010

[4] Includes discretionary bonus awarded by the Board of $29,500 (10% of TFR) in January 2010

[5] Amounts include pro-rata allocation of Retention Plan amounts to 30 June 2010 as discussed in Section 5.3.6 on page 90

### 5.3.8 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 9 employees remaining as active participants in the plan at 30 June 2010

#### Performance Rights

Since the establishment of the plan, eligible participants receive performance rights on an annual basis, subject to the approval of the NRC. However there were no rights issued under the plan during the 30 June 2010 financial year pending a restructure of the plan. The percentages of TFR entitlement for participants under the LTIP is set out in the following table:

| LTIP grant (maximum % of TFR) | |
|---|---|
| Position | FY 2010 |
| 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 (generally the first five trading days of July in the year that the performance rights are granted)

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

#### EPS

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% |

### TSR

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 following finalisation of financial statements for the last financial year of the relevant three year performance period. For the performance rights granted in respect of the 2008 financial year, the Board assessed performance against the TSR, EPS growth and ROIC performance hurdles following finalisation of the financial statements for the year ending 30 June 2010. Refer to section 5.3.9 for the outcome of the performance assessment of the performance rights awarded relating to the 2008 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 (for example, 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 | FY08 | 30 June 2010 | $5.31 | 85%[1] |
| 14 October 2008 | FY09 | 30 June 2011 | $3.55 | To be determined |
| 29 June 2009 | FY10 | 30 June 2012 | $5.44 | To be determined |

[1] Relates to the average percentage of performance rights vested across the three performance hurdles. Refer to section 5.3.9 for detailed assessment of the outcome of each LTIP performance hurdle.

### 5.3.9 Outcome of Assessment of LTIP Performance Hurdles for the 2008 Performance Rights

Performance Rights granted under the LTIP relating to the 2008 financial year had a vesting date of 30 June 2010. Following is an assessment of the performance hurdles of EPS, ROIC and TSR for the performance period 1 July 2007 to 30 June 2010.

#### Earnings Per Share

The percentage of the 2008 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 (the "Base Year") to the final financial year of the Performance Period, measured against specified EPS targets.

As the EPS for the 2007 financial year (the "base" year) was 35.5 cents per share, the minimum EPS required for the 2010 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% | 47.3 cents |
| Stretch target | Equal to or greater than 15% | 100% | 54.0 cents |

The average annual growth rate along with the percentage of rights vested, based on 2010 financial year results, is shown in the table below.

| Vesting Date | Base Year EPS (FY07) | 2010 NPAT | 2010 Weighted Average No. of shares on issue | EPS at 30 June 2010[1] | Average Annual Growth | % of Rights subject to vest |
|---|---|---|---|---|---|---|
| 30 June 2010 | 35.5 cents | $125,064,000 | 253,680,737 | 49.3 cents | 11.6% | 50% |

[1] EPS is calculated on weighted average number of shares on issue during the year

#### Return on Invested Capital (ROIC)

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:

$$\text{ROIC} = \frac{\text{Earnings before interest and tax}}{\text{Interest bearing debt + Shareholders equity}}$$

For the 2008 Performance Rights, the ROIC over the 3 year vesting period along with the calculated annual average over the period is shown in the table below. The estimated outcome of 17.3% is above the stretch target of 15% and therefore 100% of the rights attached to the ROIC hurdle vested for the 2008 Performance Rights.

| Vesting Period | EBIT $'000 | Debt + Equity $'000 | Actual ROIC at 30 June | % of Rights subject to vest |
|---|---|---|---|---|
| 2008 | 114,006 | 738,991 | 15.4% | |
| 2009 | 247,836 | 1,116,898 | 22.2% | |
| 2010 | 170,841 | 1,228,017 | 13.9% | |
| Annualised Average | 177,561 | 1,027,969 | 17.3% | 100% |

#### Total Shareholder Return (TSR)

For the 2008 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 2007). 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 2007 to 30 June 2010, Macarthur Coal achieved a TSR of 93.7% and ranked at the 98.4th percentile.

Based on the percentile ranking, 100% of the TSR portion of the 2008 Performance Rights vested on 30 June 2010.

### 5.3.10 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[1] | | Value of Rights Forfeited[2] |
|---|---|---|---|---|---|---|---|
| | No. | Tranche | No. | % | No. | % | $ |
| **Key Management Personnel** | | | | | | | |
| Nicole Hollows | 27,548 | FY08 | 23,416 | 85 | 4,132 | 15 | 50,080 |
| | 19,218 | FY09 | - | - | - | - | - |
| | 47,543 | FY10 | - | - | - | - | - |
| Peter Kane | 9,297 | FY08 | 7,902 | 85 | 1,395 | 15 | 16,907 |
| | 11,531 | FY09 | - | - | - | - | - |
| | 28,526 | FY10 | - | - | - | - | - |
| Gary Lee | 10,468 | FY08 | 8,898 | 85 | 1,570 | 15 | 19,028 |
| | 7,495 | FY09 | - | - | - | - | - |
| | 18,542 | FY10 | - | - | - | - | - |
| Lisa Dalton | 3,361 | FY08 | 2,857 | 85 | 504 | 15 | 6,108 |
| | 3,997 | FY09 | - | - | - | - | - |
| | 13,074 | FY10 | - | - | - | - | - |
| Michael Gray | 7,438 | FY08 | 6,322 | 85 | 1,116 | 15 | 13,526 |
| | 3,844 | FY09 | - | - | - | - | - |
| | 9,509 | FY10 | - | - | - | - | - |
| **Other Executives** | | | | | | | |
| Brian Spencer[3] | 5,135 | FY10 | - | - | - | - | - |
| **Former Executives** | | | | | | | |
| Stuart Hatton[4] | 6,558 | FY09 | - | - | 6,558 | 100 | 56,333 |
| | 18,542 | FY10 | - | - | 18,542 | 100 | 159,276 |
| Shane Stephan[5] | 10,468 | FY08 | - | - | 10,468 | 100 | 93,165 |
| | 7,495 | FY09 | - | - | 7,495 | 100 | 66,706 |

[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 2010

[3] One of the top 5 earners in the Group (section 300A(1)(c) of the Corporations Act 2001)

[4] Stuart Hatton resigned effective 30 October 2009. The value of rights forfeited are based on the closing share price on 30 October 2009

[5] Shane Stephan resigned effective 21 August 2009. The value of rights forfeited are based on the closing share price on 21 August 2009

Changes to the tax legislation that apply to performance rights granted under the Company's LTIP have impacted the key objectives of the LTIP and hence the viability of the plan as it is currently structured. No grants will be made for the 2011 financial year until such time as a restructure of the plan has been undertaken. Refer to page 98 for details on the Reward Design Strategy review, a major initiative for the 2011 financial year.

### 5.3.11 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 2010 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 Board commissioned Mercer to undertake a review of the CEO's compensation arrangements during the year. Mercer compared Macarthur Coal's CEO remuneration against the market and concluded that while the CEO's pay mix was generally in line with the market, the CEO's remuneration arrangements were positioned below the 25th percentile of a peer group of similar sized Australian listed resource companies.

In particular, the review noted that Macarthur Coal's financial performance was positioned between the 50th and 75th percentiles of the peer group, leading the peer group in growth metrics and when comparing shareholder value to the peer group, Macarthur Coal led the peer group.

As a result of the Mercer review, the Board increased the TFR component of the CEO's remuneration to $1.1 million per annum from 1 April 2010 to bring the CEO's TFR closer to the median of the peer group. In accordance with the CEO's contract of employment, remuneration reviews for the CEO are undertaken annually.

- **Other Senior Executives**

Mercer was also commissioned to undertake a review of remuneration arrangements for Executives during the year. The Board approved an increase in TFR for the EGM Corporate Services and Company Secretary to $330,000 as a result of a role expansion and based on a review against Macathur Coal's peer group. No other Executives received an increase in remuneration during the reporting period.

In accordance with the Executives' contracts of employment, remuneration reviews for the Executives are undertaken annually.

• Other Remuneration Arrangements

In addition to these remuneration reviews, the CEO and other Senior Executives became entitled to Macarthur Coal shares under the Long Term Incentive Plan (LTIP) for performance rights granted relating to the 2008 financial year. The value of Macarthur Coal shares at 30 June 2010 to be awarded under the LTIP to Senior Executives is set out below, together with details of remuneration earned. The CEO and Company Secretary also received discretionary bonuses awarded by the Board. Refer to section 5.3.7 for further details.

FY 2010 Remuneration for Senior Executives

| Senior Executives | TFR[1] | STI Payment (Performance linked)[2] | Discretionary Bonus[3] | Value of MCC Shares at 30 June 2010 awarded under LTIP for 2008 Performance Rights[4] |
|---|---|---|---|---|
| Nicole Hollows | $725,000 | $508,200 | $60,000 | $283,802 |
| Peter Kane | $450,000 | $128,700 | n/a | $95,772 |
| Gary Lee | $390,000 | $91,260 | n/a | $107,844 |
| Lisa Dalton | $303,750 | $78,705 | $29,500 | $34,627 |
| Michael Gray | $320,923 | $43,768 | n/a | $76,623 |

[1] TFR is the actual amount of total fixed remuneration being base salary and superannuation paid to Senior Executives in the FY2010

[2] The STI is the amount of incentive earned by the Senior Executive in the 2010 financial year. The STI is due for payment in September 2010

[3] Includes cash bonus awarded by Board in recognition of efforts during the corporate activity

[4] 23,416 MCC shares to be awarded to Nicole Hollows, 7,902 MCC shares to be awarded to Peter Kane, 8,898 MCC shares to be awarded to Gary Lee, 6,322 MCC shares to be awarded to Michael Gray and 2,857 shares to be awarded to Lisa Dalton under the Long Term Incentive Plan. The value is determined by the number of shares to be awarded multiplied by the closing share price at 30 June 2010. Shares are to be purchased on market in the trading window after the release of the full year results

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[1] | Performance Rights[2] | Options over ordinary shares |
|---|---|---|---|
| Nicole Hollows | 14,500 | 90,177 | Nil |

[1] MCC ordinary shares owned by Nicole Hollows at 30 June 2010

[2] 2008, 2009 and 2010 Performance Rights granted to Nicole Hollows. This figure includes 23,416 performance rights which will be converted to MCC shares pursuant to the Long Term Incentive Plan and 66,761 performance rights which are still subject to performance conditions in the future. The rights which vested at 30 June 2010 will be purchased on market in the trading window after the release of the 2010 full year results

### 5.3.12 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[1] | Maximum termination payment[2] | Other payments[3] |
|---|---|---|---|---|
| **Current Senior Executives** | | | | |
| Nicole Hollows | 3 months | 12 months | 12 months (termination)<br>24 months (redundancy) | No |
| Peter Kane | 3 months | 3 months | 12 months (redundancy) | No |
| Gary Lee | 3 months | 3 months | 12 months (redundancy) | No |
| Lisa Dalton | 3 months | 3 months | 12 months (redundancy) | No |
| Michael Gray | 3 months | 3 months | 12 months (redundancy) | No |
| **Other Executives** | | | | |
| Brian Spencer[4] | 3 months | 3 months | 12 months (redundancy) | Yes |

[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). Given changes to the Corporations Act, a resolution will be put to Shareholders at the 2010 AGM to preserve these entitlements. 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

[4] A top 5 earner of the Group

### 5.4 Directors' and Executive Officers' Remuneration Year Ended 30 June 2010

Details of the nature and amount of each major element of remuneration of each Director of the Group and each relevant Group Executive are:

| Directors | | Short term | | | | Post employment benefits - Super-annuation | Long term employee 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[1,2] | | | |
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ | | |
| **Non-Executive** | | | | | | | | | | | | |
| Keith De Lacy | | | | | | | | | | | | |
| | 2010 | 82,569 | - | 10,100 | 92,669 | 7,431 | - | 146,353 | - | 246,453 | 0% | 0% |
| | 2009 | 82,569 | - | 12,008 | 94,577 | 7,431 | - | 38,865 | - | 140,873 | 0% | 0% |
| Roger Marshall | | | | | | | | | | | | |
| | 2010 | 59,633 | - | 8,650 | 68,283 | 5,367 | - | 146,353 | - | 220,003 | 0% | 0% |
| | 2009 | 58,622 | - | 12,008 | 70,630 | 5,276 | - | 38,865 | - | 114,771 | 0% | 0% |
| Peter Forbes | | | | | | | | | | | | |
| | 2010 | 73,394 | - | 9,744 | 83,138 | 6,605 | - | 146,138 | - | 235,881 | 0% | 0% |
| | 2009 | 56,220 | - | 12,008 | 68,228 | 13,780 | - | 38,865 | - | 120,873 | 0% | 0% |
| Chen Zeng | | | | | | | | | | | | |
| | 2010 | 50,459 | - | 8,650 | 59,109 | 4,541 | - | 146,353 | - | 210,003 | 0% | 0% |
| | 2009 | 50,459 | - | 12,008 | 62,467 | 4,542 | - | 31,303 | - | 98,311 | 0% | 0% |
| Martin Kriewaldt | | | | | | | | | | | | |
| | 2010 | 50,459 | - | 9,744 | 60,203 | 4,541 | - | 121,674 | - | 186,418 | 0% | 0% |
| | 2009 | 35,315 | - | 8,587 | 43,902 | 3,178 | - | - | - | 47,080 | 0% | 0% |
| Terry O'Reilly | | | | | | | | | | | | |
| | 2010 | 15,992 | - | 8,650 | 24,642 | 49,008 | - | 121,674 | - | 195,324 | 0% | 0% |
| | 2009 | - | - | 8,587 | 8,587 | 44,687 | - | - | - | 53,274 | 0% | 0% |
| **Executive** | | | | | | | | | | | | |
| Nicole Hollows - Chief Executive Officer | | | | | | | | | | | | |
| | 2010 | 749,246 | 774,450 | 43,699 | 1,567,395 | 25,000 | 123,535 | - | 158,897 | 1,874,827 | 39% | 8% |
| | 2009 | 588,322 | 216,000 | 47,629 | 851,951 | 50,000 | 45,687 | - | 79,158 | 1,026,796 | 29% | 8% |
| Total Remuneraton - All Directors | | | | | | | | | | | | |
| | **2010** | **1,081,752** | **774,450** | **99,237** | **1,955,439** | **102,493** | **123,535** | **828,545** | **158,897** | **3,168,909** | | |
| | **2009** | **871,507** | **216,000** | **112,835** | **1,200,342** | **128,894** | **45,687** | **147,898** | **79,158** | **1,601,978** | | |

[1] Remuneration amounts disclosed for the 2009 financial year relating to performance rights have been restated from the prior year to reflect the cost to the Group as expensed under Accounting Standards rather than the total value of the rights granted during that year, which may or may not vest at the vesting date

[2] Remuneration in the form of share based payments includes negative amounts for performance rights forfeited during the year

| | | Short term | | | | Post employment benefits - Super-annuation | Long term employee 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[1,2] | | | |
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ | | |
| **Executive** | | | | | | | | | | | | |
| Peter Kane - Chief Operating Officer | | | | | | | | | | | | |
| | 2010 | 422,442 | 213,075 | 22,351 | 657,868 | 25,000 | 2,966 | - | 78,997 | 764,831 | 27% | 10% |
| | 2009 | 410,881 | 91,463 | 33,713 | 536,057 | 37,160 | - | - | 31,536 | 604,753 | 20% | 5% |
| Gary Lee - Vice President, Marketing | | | | | | | | | | | | |
| | 2010 | 346,189 | 164,385 | 10,152 | 520,726 | 49,999 | 8,077 | - | 61,347 | 640,149 | 24% | 10% |
| | 2009 | 310,136 | 58,500 | 14,045 | 382,681 | 100,000 | 5,293 | - | 30,263 | 518,237 | 17% | 6% |
| Lisa Dalton - EGM Corporate Services and Company Secretary | | | | | | | | | | | | |
| | 2010 | 313,319 | 170,080 | 23,170 | 506,569 | 25,000 | 3,393 | - | 32,489 | 567,451 | 25% | 6% |
| | 2009 | 258,196 | 41,147 | 17,145 | 316,488 | 22,691 | 2,280 | - | 11,268 | 352,727 | 15% | 3% |
| Michael Gray - EGM Projects & Infrastructure | | | | | | | | | | | | |
| (Appointed 20/07/09) | 2010 | 246,334 | 104,111 | 44,945 | 395,390 | 23,672 | 5,774 | - | 36,138 | 460,974 | 17% | 8% |
| | 2009 | - | - | - | - | - | - | - | - | - | 0% | 0% |
| **Former Executives** | | | | | | | | | | | | |
| Stuart Hatton - Chief Financial Officer | | | | | | | | | | | | |
| (Resigned 30/10/09) | 2010 | 127,810 | - | 7,367 | 135,177 | 10,356 | - | - | (6,289) | 139,244 | -5% | -5% |
| | 2009 | 320,813 | 51,919 | 156,251 | 528,983 | 28,047 | - | - | 6,289 | 563,319 | 10% | 1% |
| Shane Stephan - Chief Development Officer | | | | | | | | | | | | |
| (Resigned 21/8/09) | 2010 | 114,331 | - | 1,434 | 115,765 | 3,887 | - | - | - | 119,652 | 0% | 0% |
| | 2009 | 367,908 | 51,919 | 32,614 | 452,441 | 13,865 | 31,075 | - | - | 497,381 | 10% | 0% |
| Belinda Smith - Acting CFO | | | | | | | | | | | | |
| (Resigned 15/8/08) | 2010 | - | - | - | - | - | - | - | - | - | 0% | 0% |
| | 2009 | 33,250 | - | 2,099 | 35,349 | 1,887 | - | - | - | 37,236 | 0% | 0% |
| **Other Group Executives** | | | | | | | | | | | | |
| Brian Spencer - General Manager, Coppabella | | | | | | | | | | | | |
| | 2010 | 297,648 | 98,258 | 30,864 | 426,770 | 43,883 | - | - | 7,726 | 478,379 | 9% | 2% |
| | 2009 | 286,776 | 27,070 | 17,209 | 331,055 | 40,217 | - | - | 51 | 371,323 | 7% | 0% |
| Total Remuneraton - Executives | | | | | | | | | | | | |
| | **2010** | **1,868,073** | **749,909** | **140,283** | **2,758,265** | **181,797** | **20,210** | **-** | **210,408** | **3,170,680** | | |
| | **2009** | **1,987,960** | **322,018** | **273,076** | **2,583,054** | **243,867** | **38,648** | **-** | **79,407** | **2,944,976** | | |

[1] Remuneration amounts disclosed for the 2009 financial year relating to performance rights have been restated from the prior year to reflect the cost to the Group as expensed under Accounting Standards rather than the total value of the rights granted during that year, which may or may not vest at the vesting date

[2] Remuneration in the form of share based payments includes negative amounts for performance rights forfeited during the year

### 5.5 Employee Share Plans

#### 5.5.1 Employee Share Loan Plan

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

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

The shares were acquired 'on market' at market value on behalf of the employees. The loan does not give rise to fringe benefits tax as the loan was used to acquire income-producing shares. Loans are interest free. Loan repayments comprise the retention of dividends plus a monthly payment by employees of an amount equal to 1% of monthly gross salary.

Loans are repayable on termination of employment. Shares are held within a trust on behalf of employees. When an employee resigns, the trustee sells the shares and uses the proceeds to reduce the loan balance. Any surplus is then given to the employee. The Company bears the expense of any loan shortfall. An invitation to participate in the loan scheme was not made in the 2010 financial year.

#### 5.5.2 Deferred Employee Share Plan

In the 2009 financial year, Macarthur Coal implemented a Deferred Employee Share Plan (DESP) which was offered to all full time employees that had been employed with the Company for a period of three months. The plan allowed employees to salary sacrifice up to a pre-determined percentage of their pre-tax total salary for shares. The tax payable on the sacrificed salary was able to be deferred for up to ten years if conditions under the plan are met.

The Board suspended this plan in 2009 as a result of the decision by the Federal Treasurer to remove the ability of participants to defer tax. The plan was only operative for two months before it was suspended.

A decision on the re-activation, amendment or termination of the DESP will be made once the Reward Design Strategy is finalised in the 2011 financial year.

### 5.6 Reward Design Strategy

During the 2010 financial year, the NRC commissioned a review of Macarthur Coal's overall reward strategy to ensure a business-oriented, 'best fit' approach which balances the need to pay with the capacity to pay and which is centred around four basic reward design principles:

- Internal consistency and fairness –
  *Is the employee fairly paid compared to co-workers?*
- External equity –
  *Is the employee fairly paid compared to others in their profession or industry?*
- Link to performance –
  *Why performance matters?*
- Ease of communication and administration –
  *Is the reward system at Macarthur Coal easy to understand?*

The overarching objective of the review of the Reward Design Strategy is to attract and retain high performing people. The review of the Reward Design Strategy is expected to be complete by 30 June 2011 and will be rolled out for the 2012 financial year. Objectives for Leadership and Oversight and the Reward Mix for the Reward Design Strategy are summarised below:

| Leadership & Oversight | |
|---|---|
| Governance | • Clear strategy<br>• Strategy to link to daily business activities<br>• Business leader ownership across Senior Leaders<br>• Transparency/equity/fairness around benchmarking<br>• Internal and external market equity |
| Administration | • TFR based on role and value of role to organisation, not individual<br>• Equity regarding application of remuneration reviews and performance review process<br>• Communication plans regarding review process, changes, etc. |
| **Reward Mix** | |
| TFR | • Remain highly in line with benchmark<br>• Salary banding to be created based on competencies for job families, capabilities, progression and structure |
| STI | • Competitive relative to market<br>• STI opportunity tiered according to responsibilities of role<br>• Motivate/drive high performance<br>• Flexibility/revision of goals throughout the year according to market conditions<br>• High performance = high reward |
| LTI | • Drives high performance<br>• Aids in retention<br>• Transparency of eligibility criteria |

### 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 following indices in respect of the current and previous financial years:

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Net profit | $149,589,000 | $66,544,000 | $72,684,000 | $168,558,000 | $125,064,000 |
| Dividends paid | $61,412,000 | $54,340,000 | $19,481,000 | $29,702,000 | $53,410,000 |
| Change in share price | -$2.97 | $2.29 | $10.10 | -$10.27 | $5.52 |
| Return on invested capital | 36.8% | 13.3% | 10.0% | 16.2% | 10.7% |
| Earnings per share (diluted) | 83.2 cents | 35.5 cents | 36.6 cents | 79.3 cents | 49.3 cents |
| Director Remuneration [1] | $1,170,718 | $1,463,318 | $1,639,032 | $1,601,978[2] | $3,168,909 |
| Executive Remuneration | $3,623,360 | $4,162,608 | $2,879,814 | $2,944,976[2] | $3,170,680 |

[1] Director Remuneration includes compensation paid to Nicole Hollows as Managing Director and Chief Executive Officer

[2] As noted in section 5.4, Director and Executive Remuneration disclosed for the 2009 financial year has been restated. The change is to amend the amount recognised in relation to performance rights to reflect the cost to the Company of performance rights as expensed under Accounting Standards rather than the total value of the rights granted during that year, which may or may not vest at the vesting date

Over the past 4 years:

- The annualised return to a shareholder who purchased shares on 1 July 2006 ($4.48/share), was paid the dividends by the Company and sold the shares on 30 June 2010 at $12.12/share (the closing price on 30 June 2010) was 31.9%
- The compound annual growth rate (CAGR) over the period for Directors fees was 28.3%
- The CAGR for Executive remuneration over the period was a decrease of 3.3%
- The CAGR for earnings per share over the period was a decrease of 12.3%.

Returns to shareholders over the entire period have exceeded the CAGR for Directors' fees and Executive remuneration.

### 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 or performance rights were granted during the year or have been granted since the end of the financial year.

## 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 56 to 61.

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. Two instances of non-compliance at the mines were the subject of fines of $2,000 each for Coppabella Mine and Moorvale Mine when the mines were issued with penalty infringement notices from Department of Environment and Resource Management (DERM), Coppabella Mine for unauthorised discharge of water with turbidity levels higher than permitted and Moorvale Mine for discharge of water with electrical conductivity levels higher than permitted.

Plans and associated capital expenditure are in place for the 2011 financial year to reduce the risk of any further non-compliances and to address more stringent water discharge requirements put in place by DERM during the 2010 financial year.

## 7. PRINCIPAL ACTIVITIES

The Company's principal activities are explained fully in the Operations and Growth sections of the Annual Report from page 19 to 42. Macarthur Coal's principal activities during the course of the year were coal mining, project evaluation, project development and coal exploration. Product coal is predominantly exportedto 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 5 to 7.

## 9. REVIEW OF OPERATIONS

The Operations and Growth sections of the Annual Report from pages 19 to 42 provide a detailed report on the operations of Coppabella and Moorvale mines and the Middlemount Mine project.

## 10. FINANCIAL PERFORMANCE

Refer to the Financial Performance Report on page 14 of the Annual Report for detailed information on financial performance.

### 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:

| | Cents per share | Total amount $'000 | Franked/ unfranked | Date of payment |
|---|---|---|---|---|
| **Declared and paid during the year** | | | | |
| Final 2009 ordinary | 13.0 | 33,063 | Franked | 30 September 2009 |
| Interim 2010 ordinary | 8.0 | 20,347 | Franked | 21 April 2010 |
| **Total dividends paid during 2010** | **21.0** | **53,410** | | |
| Franked dividends declared or paid during the year were fully franked at the rate of 30 per cent. | | | | |
| **Declared after end of year** | | | | |
| After the balance sheet date the following dividends were proposed by the directors. | | | | |
| Final 2010 ordinary | 17.0 | 43,237 | Franked | 18 October 2010 |
| The financial effect of the final 2010 dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports. There are no income tax consequences for the 2010 financial year. | | | | |
| **Dividends have been dealt with in the financial report as:** | | | **Note** | **$'000** |
| Dividends | | | 27 | 53,410 |
| Noted as not recognised at the end of the reporting period | | | 27 | 43,237 |

## 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.

## 13. EVENTS SUBSEQUENT TO BALANCE DATE

Macarthur Coal has entered into a binding term sheet with MCG Group Companies ("MCG Companies") to acquire shares in an incorporated joint venture with the MCG Companies to develop MDL162 (MCC:90% and MCG Companies:10%) ("Acquisition"). The Acquisition is subject to the approval of the Foreign Investment Review Board ("FIRB") and the parties have agreed to negotiate comprehensive legal documentation in relation to the acquisition.

Macarthur will pay $334.35 million in cash to the MCG Companies for a 90% interest in the incorporated joint venture and the funds will be used by the MCG Companies to complete the acquisition of MDL162 from Stanwell Corporation Limited ("Stanwell"). MDL162 is a deposit of predominantly metallurgical coal with rail infrastructure in close proximity. Macarthur will also contribute $25.65 million to MCG for funding of exploration and to undertake a Bankable Feasibility Study. Macarthur intends to raise in excess of A$400 million to fund the Acquisition through an institutional placement and share purchase plan.

The MCG Companies have an unconditional purchase agreement with Stanwell to acquire MDL162, and the consent of Stanwell has been sought to extend the time for completion of the acquisition, pending the approval of FIRB.

Other than the matter discussed above, in the interval between the end of the financial year and the date of this report, there has not arisen any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 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 127.

## 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 2010 and appears on page 101.

## 17. ROUNDING OFF

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

Signed in accordance with a resolution of the Directors.

Keith De Lacy
**Chairman**
24 August 2010

KPMG

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

To the Directors of Macarthur Coal Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

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

KPMG

**KPMG**

Robert S. Jones

**Robert S Jones**

**Partner**

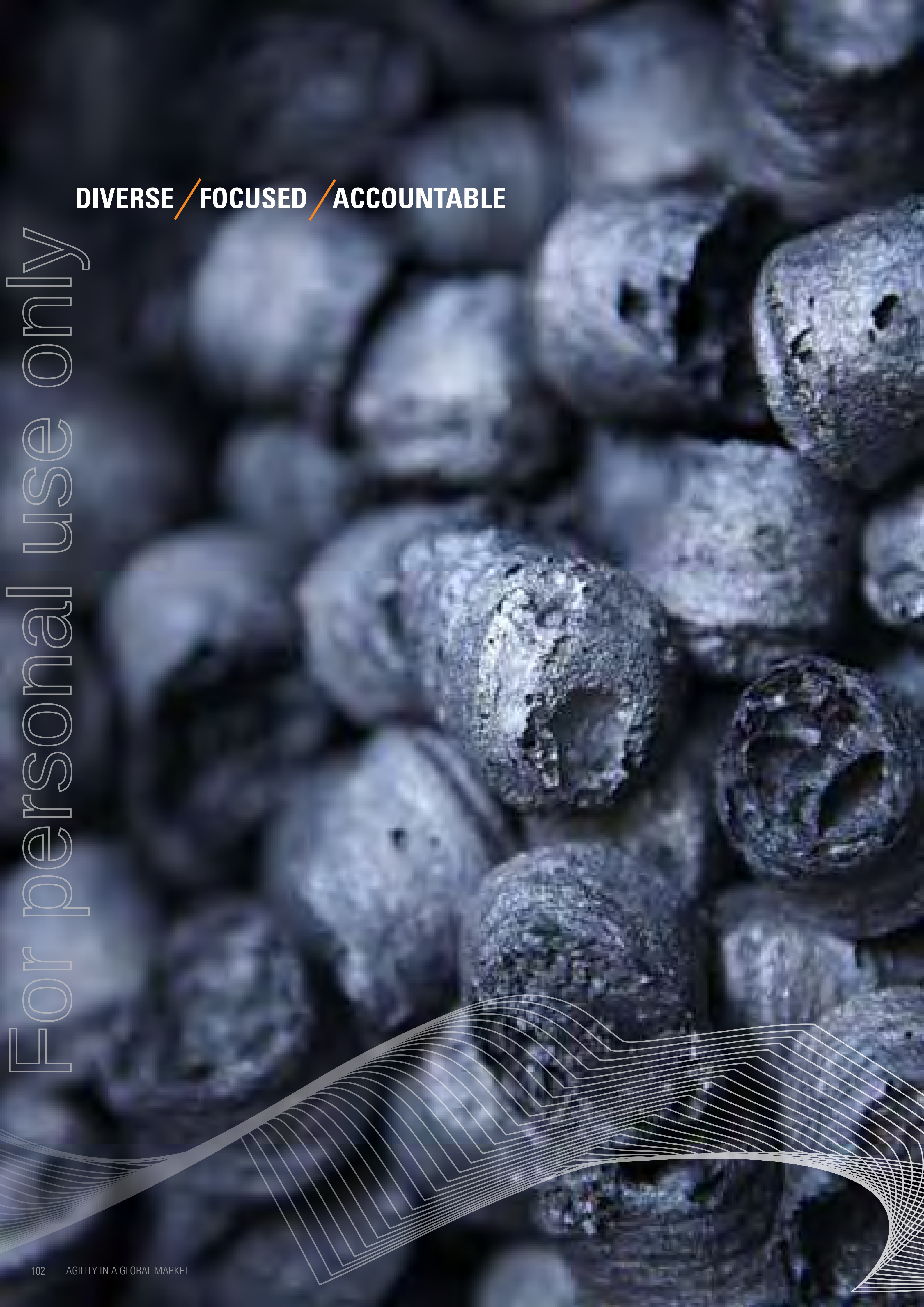
Brisbane

24 August 2010

KPMG, an Australian partnership and a member firm of the KPMG Network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Liability limited by a scheme approved under Professional Standards Legislation.

## DIVERSE / FOCUSED / ACCOUNTABLE



# FINANCIAL REPORT

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| Revenue from coal sales | | 670,502 | 695,417 |
| Cost of coal sold | | (397,800) | (412,692) |
| **Gross profit** | | 272,702 | 282,725 |
| Other income | 7 | 10,862 | 67,015 |
| Distribution expenses | | (56,550) | (30,762) |
| Administration expenses | | (19,345) | (18,982) |
| Other expenses | 8 | (25,894) | (39,822) |
| **Results from operating activities** | | 181,775 | 260,174 |
| Financial income | 11 | 14,174 | 3,272 |
| Financial expenses | 11 | (12,169) | (8,912) |
| **Net financial income/(expenses)** | | 2,005 | (5,640) |
| Share of loss of equity accounted investees, net of income tax | 30 | (10,934) | (12,338) |
| **Profit before income tax** | | 172,846 | 242,196 |
| Income tax expense | 12(a) | (47,782) | (73,638) |
| **Profit for the year** | | **125,064** | **168,558** |
| **Other comprehensive income** * | | | |
| Cashflow hedges: | | | |
| Fair value gains/(losses) taken to equity | | 12,469 | (131,180) |
| Fair value (gains)/losses transferred to profit or loss | | (26,807) | 124,426 |
| **Other comprehensive income for the year, net of income tax** | | (14,338) | (6,754) |
| **Total comprehensive income for the year** | | **110,726** | **161,804** |
| **Earnings per share:** | | | |
| Basic earnings per share | 14 | $0.49 | $0.79 |
| Diluted earnings per share | 14 | $0.49 | $0.79 |

* Amounts recognised in other comprehensive income are disclosed net of income tax.

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated financial statements set out on pages 108 to 163.

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 15 | 348,216 | 267,576 |
| Trade and other receivables | 16 | 209,105 | 187,608 |
| Inventories | 17 | 49,762 | 43,612 |
| Other financial assets | 18 | 26,211 | 39,682 |
| Overburden in advance | 19 | 146,548 | 138,117 |
| **Total current assets** | | 779,842 | 676,595 |
| **Non-current assets** | | | |
| Trade and other receivables | 16 | 75,309 | 800 |
| Investments in equity accounted investees | 30 | 338,554 | 358,130 |
| Inventories | 17 | - | 187 |
| Other financial assets | 18 | 4,263 | 2,745 |
| Property, plant and equipment | 20 | 267,972 | 286,797 |
| Exploration and evaluation assets | 21 | 81,226 | 70,916 |
| Overburden in advance | 19 | 19,905 | 31,834 |
| **Total non-current assets** | | 787,229 | 751,409 |
| **Total assets** | | **1,567,071** | **1,428,004** |
| **Current liabilities** | | | |
| Trade and other payables | 22 | 125,677 | 97,609 |
| Loans and borrowings | 23 | 15,822 | 14,582 |
| Current tax payable | 13 | 55,025 | 58,582 |
| Employee benefits | 24 | 5,179 | 4,101 |
| Provisions | 25 | 3,459 | 1,911 |
| Other financial liabilities | 26 | 6,639 | 3,696 |
| **Total current liabilities** | | **211,801** | **180,481** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 23 | 83,600 | 93,251 |
| Deferred tax liabilities | 13 | 76,604 | 88,957 |
| Employee benefits | 24 | 87 | 118 |
| Provisions | 25 | 30,602 | 33,903 |
| Other financial liabilities | 26 | 35,782 | 22,229 |
| **Total non-current liabilities** | | 226,675 | 238,458 |
| **Total liabilities** | | **438,476** | **418,939** |
| **Net assets** | | **1,128,595** | **1,009,065** |
| **Equity** | | | |
| Share capital | | 713,420 | 651,423 |
| Reserves | | (2,752) | 11,369 |
| Retained earnings | | 417,927 | 346,273 |
| **Total equity** | | **1,128,595** | **1,009,065** |

The consolidated statement of financial position should be read in conjunction with the notes to the consolidated financial statements set out on pages 108 to 163.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital $'000 | Hedging reserve $'000 | Share-based payments reserve $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2008 | | 465,118 | 17,941 | - | 207,417 | 690,476 |
| Total comprehensive income for the year | | | | | | |
| Profit or loss | | - | - | - | 168,558 | 168,558 |
| *Other comprehensive income* | | | | | | |
| Cash flow hedges *: | | | | | | |
| Fair value gains/(losses) taken to equity | | - | (131,180) | - | - | (131,180) |
| Fair value (gains)/losses transferred to profit or loss | | - | 124,426 | - | - | 124,426 |
| Total other comprehensive income | | - | (6,754) | - | - | (6,754) |
| Total comprehensive income for the year | | **-** | **(6,754)** | **-** | **168,558** | **161,804** |
| Transactions with owners, recorded directly in equity * | | | | | | |
| *Contributions by and distributions to owners* | | | | | | |
| Dividends to equity holders | 27 | - | - | - | (29,702) | (29,702) |
| Issue of ordinary shares | 27 | 186,305 | - | - | - | 186,305 |
| Share-based payment transactions | 24 | - | - | 182 | - | 182 |
| Total contributions by and distributions to owners | | 186,305 | - | 182 | (29,702) | 156,785 |
| Balance at 30 June 2009 | | **651,423** | **11,187** | **182** | **346,273** | **1,009,065** |
| Balance at 1 July 2009 | | 651,423 | 11,187 | 182 | 346,273 | 1,009,065 |
| Total comprehensive income for the year | | | | | | |
| Profit or loss | | - | - | - | 125,064 | 125,064 |
| *Other comprehensive income* | | | | | | |
| Cash flow hedges *: | | | | | | |
| Fair value gains/(losses) taken to equity | | - | 12,469 | - | - | 12,469 |
| Fair value (gains)/losses transferred 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** |

* Amounts recognised in other comprehensive income are disclosed net of income tax.

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated financial statements set out on pages 108 to 163.

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 650,541 | 730,056 |
| Cash payments to suppliers and employees | | (429,227) | (517,695) |
| Cash generated from operations | | 221,314 | 212,361 |
| Interest received | | 13,805 | 3,272 |
| Income taxes paid | | (65,000) | (26,471) |
| Income tax refund | | 7,009 | 25,243 |
| **Net cash from operating activities** | 36 | **177,128** | **214,405** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 32 | 17,156 |
| Acquisition of property, plant and equipment | | (9,824) | (25,021) |
| Proceeds from partial disposal of equity accounted investee | | 7,000 | - |
| Exploration and evaluation expenditure | | (10,310) | (14,769) |
| Proceeds from disposal of interest in subsidiary | 35 | - | 6,500 |
| Contributions from joint ventures | | 446,399 | 553,431 |
| Contributions to joint ventures | | (448,614) | (563,243) |
| Repayment of loans to related parties | | 771,700 | 470,622 |
| Advances to related parties | | (835,411) | (527,763) |
| Deposits made with financial institutions in relation to guarantees provided | | (1,509) | (2,745) |
| **Net cash used in investing activities** | | **(80,537)** | **(85,832)** |
| **Cash flows from financing activities** | | | |
| Proceeds from share issues | | 61,997 | 184,583 |
| Proceeds from loans and borrowings | | - | 16,000 |
| Repayment of loans and borrowings | | - | (37,842) |
| Payment of interest and financial expenses | | (743) | (1,221) |
| Repayment of other financial liabilities | | (3,621) | (3,753) |
| Payments for finance lease liabilities | | (20,174) | (11,540) |
| Dividends paid | 27 | (53,410) | (29,702) |
| **Net cash (used in) from financing activities** | | **(15,951)** | **116,525** |
| Net increase in cash and cash equivalents | | 80,640 | 245,098 |
| Cash and cash equivalents at 1 July | | 267,576 | 22,478 |
| **Cash and cash equivalents at 30 June** | 15 | **348,216** | **267,576** |

The consolidated statement of cash flows should be read in conjunction with the notes to the consolidated financial statements set out on pages 108 to 163.

## 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 2010 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The principal activities of the Group are exploration, project evaluation, project development and coal mining activities in Queensland's Bowen Basin.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 24 August 2010.

### (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 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 estimate is 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 are discussed below.

*Coal reserves*

Economically recoverable coal reserves at the Coppabella mine of 46,179,000 (2009: 49,111,000) tonnes and Moorvale mine of 24,189,000 (2009: 29,100,100) 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.

## 2. BASIS OF PREPARATION (CONTINUED)

### (d) Use of estimates and judgements (continued)

*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 2010, the Group has used a discount rate of 5.56% (2009: 4.15%).

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 is set out in Note 25.

*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 operating costs, discount rate and estimates of coal reserves. Estimates of coal reserves in themselves are dependent on various assumptions (refer above). Changes in these assumptions could therefore affect estimates of future cash flows used in the assessment of recoverable amounts, 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 against 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, future coal prices and operating costs are considered. Estimates of coal reserves in themselves are dependent on various assumptions (refer above). Changes in these assumptions could therefore affect estimates of future cash flows used in the assessment of future project fair value.

*Minerals Resource Rent Tax*

On 2 May 2010, the Australian Federal Government released its response to the Henry Tax Review including the proposal for the introduction of a Resource Super Profits Tax (RSPT). The RSPT in its proposed form was subsequently amended with material changes and is now referred to as the Minerals Resource Rent Tax (MRRT). 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 value-in-use calculations 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 2010 as significant uncertainty exists as to whether the MRRT will be substantively enacted into law in its current form.

### (e) Changes in accounting policies

As of 1 July 2009, the Group has amended its accounting policies in the following areas:

- Accounting for business combinations (refer Notes 3(a) and 3(j))
- Accounting for acquisitions of non-controlling interests (refer Note 3(a))
- Determination and presentation of operating segments (refer Note 3(r))
- Presentation of financial statements (refer Note 3(u))

## 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*

The Group has adopted the revised AASB 3 *Business Combinations* (2008) and the amended AASB 127 *Consolidated and Separate Financial Statements* (2008) for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method.

The change in accounting policy is applied prospectively. As the Group has not engaged in any business combinations during the year ended 30 June 2010, the change in accounting policy has had no impact on earnings per share.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. 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. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

*Measuring goodwill*

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

*Share-based payment awards*

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as a post-combination compensation cost.

*Contingent liabilities*

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

*Non-controlling interest*

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

*Transaction costs*

Transaction costs that the Group incurs in connection with a business combination including legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

*Accounting for acquisitions of non-controlling interests*

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 starting 1 July 2009.

The change in accounting policy is applied prospectively. As the Group has not engaged in any acquisitions of non-controlling interests during the year ended 30 June 2010, the change in accounting policy has had no impact on earnings per share.

Under the new accounting policy, 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. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

*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 are changed when necessary to align them with the policies adopted by the Group.

*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% 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 Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

*Jointly controlled operations and assets*

The interests of the Group in jointly controlled operations (including unincorporated joint ventures) and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or provision of services by the joint venture.

*Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

### (b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the dates that fair value was determined. Foreign currency differences arising on retranslation are recognised in 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: trade and other receivables, cash and cash equivalents, and cash and deposits – not at call.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial instruments (continued)

*Non-derivative financial assets (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 trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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 at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, 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 has the following non-derivative financial liabilities: loans and borrowings, trade and other payables, and amounts payable for future user charges.

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.

*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, 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 net profit.

Derivative financial instruments also exist 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*

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised 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 qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Share capital

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the 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.

### (e) Property, plant and equipment

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation (refer below) and impairment losses (refer Note 3(k)).

Cost includes expenditures that are 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, capitalised 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.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income or other expenses in profit or loss.

*Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The 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 calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Freehold land is not depreciated. Assets are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of mining property and development assets 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.

Assets are depreciated from the date they are available for use.

Depreciation rates and methods, useful lives and residual values are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying amount of another asset (e.g. inventory stocks) as an allocation of production overheads.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Property, plant and equipment (continued)

*Depreciation (continued)*

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

| Property, plant and equipment | 2010 | 2009 |
|---|---|---|
| Mining property and development | UOP [(1)] | UOP [(1)] |
| Buildings and infrastructure | 6.6% - 44% | 6.6% - 44% |
| Plant and equipment | 5% - 40% | 5% - 40% |
| Leased assets | 10% - 20% | 10% - 20% |

(1) Depreciated on a units of production (UOP) basis over reserves.

*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 mining property is capable of commercial production, at which point depreciation commences 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 profit or loss.

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 is 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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 classified as operating leases and the leased assets are not recognised in the Group's statement of financial position.

### (j) Goodwill

As from 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). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009. As the Group has not engaged in any business combinations during the year ended 30 June 2010, the change in accounting policy has had no impact on earnings per share.

*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.

*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.

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. 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 groups of assets ("the 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Impairment (continued)

*Non-financial assets (continued)*

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. 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 units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (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 demonstrably committed, 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 the 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.

*Share-based payment transactions*

The 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.

Non-Executive Directors are entitled to 10,000 Company securities each year as part of their Director's fees, pro-rated based on length of service. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Employee benefits (continued)

***Share-based payment transactions** (continued)*

*Employee loans*

The Employee Share Loan Plan allowed eligible persons of the Group and approved contractors to acquire shares of the Company. Eligible persons included permanent full-time or part-time employees, eligible contractors, or an agent of the Company or a related body corporate. No up-front payment was required for the shares as the Company offered all eligible persons an interest-free, limited-recourse loan. Any dividends received on the allocated shares are applied to repay the loan balance.

Fixed regular loan repayments are also made to repay the loan balance. The shares were purchased on the Australian Stock Exchange at the market value prevailing on the date of purchase. The outstanding loan balance is recognised as a receivable at amortised cost less any impairment losses (refer Note 3(k)). No invitation to participate in the loan scheme was made during the year ended 30 June 2010.

*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 the 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 the 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, where appropriate, 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 employing 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.

## 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, discounts, 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.

### (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) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings using the effective interest method, interest income on funds invested, amortisation of ancillary costs incurred in connection with arrangement of borrowings and unwinding of the discount on liabilities.

Borrowing costs are expensed as incurred, unless costs relate to a qualifying asset, and included in financial expenses using the effective interest method. Borrowing costs relating to a qualifying asset, being an asset that necessarily takes a substantial period to prepare for its intended use, are capitalised as part of the cost of the asset.

Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

### (r) Segment reporting

*Determination and presentation of operating segments*

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of operating segment disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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.

### (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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share-based payment awards granted to employees.

### (u) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective for the Group as of 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

### (v) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* 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 effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within the Group. As a result of the amendments AI 8 *Scope of AASB 2* and AI 11 *AASB 2 – Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The interpretation is 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 based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

*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 its 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, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these financial statements.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Risk management framework

The Board of Directors ("Board") has overall responsibility for the establishment and oversight of the risk management framework. The Board has an Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the 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, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee also oversees how management monitors compliance with the 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 Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

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 Audit and Risk Management Committee 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 17% (2009: 16%) 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.

*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.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group utilises 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 Group's 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 Audit and Risk Management Committee.

*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, most 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 2010 there were no interest rate swaps in place (2009: 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 (2009: annual fixed price contracts) for Pulverised Coal Injection (PCI) coal and coking coal which represent approximately 90% (2009: 80%) 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 Audit and Risk Management Committee ("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.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the Group's capital and funding position, through key ratio analysis. The Board also determines the level of dividends to shareholders.

In July 2009, the Group offered Australian and New Zealand retail shareholders up to $15,000 worth of shares under a non-underwritten Share Purchase Plan (SPP) at $6.00 per share. The offer price equalled the price of shares offered under the Institutional Placement in June 2009. A total of 10,352,860 shares were issued under the SPP on 24 July 2009 raising $62,117,000. The shares were quoted on the Australian Stock Exchange on 27 July 2009. The proceeds from the SPP will enable the Group to meet growth milestones by providing the necessary funding for the development of future projects. The SPP has also strengthened the Group's financial position.

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.
- *Exploration and evaluation*: Includes a number of projects at varying stages of the exploration and evaluation phase.

The application of AASB 8 *Operating Segments* required the addition of a new reportable segment, "Development", and the removal of the "Other" segment. The comparative segment information has been restated and has been presented in conformity with the requirements of AASB 8 *Operating Segments.*

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 before income tax 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.

| Information about reportable segments | Production $'000 | Development $'000 | Exploration and Evaluation $'000 | Total $'000 |
|---|---|---|---|---|
| **30 June 2010** | | | | |
| 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** |
| **30 June 2009** | | | | |
| External sales revenue | 695,417 | - | - | 695,417 |
| Financial income | 60 | - | 76 | 136 |
| Financial expenses | (6,868) | - | - | (6,868) |
| Depreciation and amortisation | (20,658) | - | - | (20,658) |
| Reportable segment profit/(loss) before income tax | 264,310 | (6,734) | (9,090) | 248,486 |
| Reportable segment assets | **691,366** | **305,821** | **143,953** | **1,141,140** |

## 6. OPERATING SEGMENTS (CONTINUED)

### Reconciliations of reportable segment revenues, profit or loss and assets

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 670,502 | 695,417 |
| **Profit or loss** | | |
| Total profit before income tax for reportable segments | 199,583 | 248,486 |
| Unallocated amounts: | | |
| Depreciation and amortisation | (318) | (591) |
| Change in fair value of other derivative liabilities | (14,010) | 7,771 |
| Financial income | 13,974 | 3,136 |
| Financial expenses | (1,994) | (2,044) |
| Net gain on sale of controlling interest in subsidiary | - | 5,139 |
| Net loss on partial disposal of equity accounted investee | (1,641) | - |
| Other corporate expenses | (22,748) | (19,701) |
| Consolidated profit before income tax | 172,846 | 242,196 |

| Assets | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Total assets for reportable segments | 1,161,997 | 1,141,140 |
| Unallocated amounts: | | |
| Cash and cash equivalents | 348,216 | 267,576 |
| Property, plant and equipment | 1,397 | 1,584 |
| Other corporate assets | 55,461 | 17,704 |
| Consolidated total assets | 1,567,071 | 1,428,004 |

### Geographical segments

The Group operates predominately in Australia. All non-current assets of the Group are based in Australia. There were no coal sales attributable to Australia in the year (2009: $Nil).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

| Geographical information | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Japan | 168,946 | 193,974 |
| Korea | 129,896 | 123,469 |
| China | 105,989 | 54,952 |
| Brazil | 78,371 | 64,231 |
| UK | 54,535 | 65,523 |
| France | 43,754 | 26,182 |
| Italy | 29,939 | 21,540 |
| Switzerland | 12,679 | 104,049 |
| Other countries | 46,393 | 41,497 |
| Total | 670,502 | 695,417 |

### Major customers

Revenues from three customers (2009: two customers) of the Group's production segment represent approximately $296,075,000 (2009: $188,112,000) of the Group's total revenues.

## 7. OTHER INCOME

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Management fee – related parties | 253 | 621 |
| Net gain on sale of controlling interest in subsidiary | - | 5,139 |
| Net foreign exchange gains | - | 22,508 |
| Change in fair value of other derivative liabilities | - | 7,771 |
| Contract renegotiation settlements | - | 30,966 |
| Net gain on sale of infrastructure capacity | 10,600 | - |
| Sundry – other parties | 9 | 10 |
| | **10,862** | **67,015** |

During the year ended 30 June 2010, the Group earned a net gain of $10,600,000 on the sale of excess rail capacity.

During the year ended 30 June 2009, the Group sold a 14.285% interest in Custom Mining Dingo Pty Ltd to Paway Limited for $6,500,000 in cash, resulting in a gain on sale of $5,139,000.

## 8. OTHER EXPENSES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Exploration and evaluation expensed as incurred | 17 | 133 |
| Depreciation | 285 | 754 |
| Farm-in and related termination payments | - | 2,045 |
| Net loss on disposal of non-current assets | 42 | 35 |
| Net foreign exchange losses | 2,975 | - |
| Change in fair value of other derivative liabilities | 14,010 | - |
| Settlement of ineffective cash flow hedges | - | 36,811 |
| Transaction costs | 6,924 | - |
| Related party debt forgiveness | - | 44 |
| Net loss on partial disposal of equity accounted investee | 1,641 | - |
| | **25,894** | **39,822** |

During the year ended 30 June 2010, the Group revalued derivative contracts arising from the acquisition of Custom Mining Limited Group, resulting in a loss of $14,010,000 (2009: $7,771,000 fair value gain) on revaluation of the derivative contracts.

During the year ended 30 June 2010, the Group incurred transaction costs for potential mergers and acquisitions of $6,924,000 (2009: $Nil).

In April 2010, the Group disposed of 2.18% of its equity accounted investment in Middlemount Coal Pty Ltd. This resulted in a net loss on disposal of $1,641,000. Refer Note 30 for further details.

## 9. PERSONNEL EXPENSES

| | Note | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| Wages and salaries | | 7,985 | 6,076 |
| Other associated personnel expenses | | 1,693 | 1,530 |
| Contributions to defined contribution superannuation funds | | 427 | 335 |
| Increase in liability for annual leave | | 955 | 879 |
| Increase in liability for long-service leave | | 157 | 21 |
| Increase / (decrease) in liability for sick leave | | (68) | 464 |
| Equity-settled share-based payment transactions | 24 | 368 | 203 |
| Termination benefits | | 267 | 186 |
| | | **11,784** | **9,694** |

## 10. AUDITORS' REMUNERATION

| | 2010 $ | 2009 $ |
|---|---|---|
| **Audit services** | | |
| Auditors of the Group – KPMG | | |
| • Audit and review of financial reports | | |
| - Current year | 397,000 | 355,000 |
| - Prior year | 42,955 | 250,000 |
| • Audit of joint venture operations [B] | | |
| - Current year | 214,036 | 191,460 |
| - Prior year | 38,246 | 21,990 |
| • Other regulatory audit services | 3,000 | 2,750 |
| | 695,237 | 821,200 |
| **Other services** | | |
| Auditors of the Group – KPMG | | |
| • Corporate governance and forensic services | 19,209 | 61,276 |
| • Taxation services | 122,890 | 161,940 |
| • Other advisory services [A] | 51,480 | 321,342 |
| • Joint venture operations – Other services [B] [C] | 3,660 | 2,932 |
| | 197,239 | 547,490 |

[A] Provision of accounting and other advice in relation to transaction work and financing arrangements.
[B] Represents the Group's share of remuneration paid for audit and other services incurred by joint ventures.
[C] 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 Audit and Risk Management Committee 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 tax compliance, forensic services 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.

## 11. FINANCIAL INCOME AND EXPENSES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Recognised in profit and loss** | | |
| Interest income on cash and short-term deposits | 14,174 | 3,272 |
| Financial income | 14,174 | 3,272 |
| | | |
| Financing costs | (377) | (2,475) |
| Interest expense on financial liabilities measured at amortised cost | (7,695) | (4,490) |
| Unwind of discount on liabilities | (4,097) | (1,947) |
| Financial expense | (12,169) | (8,912) |
| Net financial income/(expenses) | **2,005** | **(5,640)** |

## 12. INCOME TAX EXPENSE

(a) Recognised in profit or loss

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current tax expense** | | |
| Current year | 59,283 | 77,269 |
| Adjustments for prior years | (5,411) | (2,310) |
| | 53,872 | 74,959 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (6,090) | (1,321) |
| | (6,090) | (1,321) |
| Total income tax expense from continuing operations | **47,782** | **73,638** |

(b) Numerical reconciliation between tax expense and pre-tax net profit

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Profit for the year | 125,064 | 168,558 |
| Total income tax expense | 47,782 | 73,638 |
| Profit excluding income tax | **172,846** | **242,196** |
| Income tax using the domestic corporation tax rate of 30% (2009: 30%) | 51,854 | 72,659 |
| Increase in income tax expense due to: | | |
| • Non-deductible expenses | 7,451 | 3,947 |
| Decrease in income tax expense due to: | | |
| • Tax exempt income and other items | (4,123) | (2,514) |
| | 55,182 | 74,092 |
| Under/(over) provided in prior years | (7,400) | (454) |
| | **47,782** | **73,638** |

(c) Income tax recognised directly in equity

| | 2010 $'000 | | | 2009 $'000 | | |
|---|---|---|---|---|---|---|
| | Before Tax | Tax (expense) benefit | Net of Tax | Before Tax | Tax (expense) benefit | Net of Tax |
| Equity raising costs | (393) | 118 | (275) | (6,616) | 1,985 | (4,631) |

(d) Income tax recognised directly in other comprehensive income

| | 2010 Before Tax | 2010 Tax (expense) benefit | 2010 Net of Tax | 2009 Before Tax | 2009 Tax (expense) benefit | 2009 Net of Tax |
|---|---|---|---|---|---|---|
| Cash flow hedges | (20,483) | 6,145 | (14,338) | (9,648) | 2,894 | (6,754) |

## 13. TAX ASSETS AND LIABILITIES

### Current tax assets and liabilities

The current tax liability for the Group of $55,025,000 (2009: $58,582,000) represents the amount of income tax payable in respect of current and prior financial years.

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Property, plant and equipment | - | - | 2,821 | 2,376 | 2,821 | 2,376 |
| Employee benefits | (1,579) | (1,266) | - | - | (1,579) | (1,266) |
| Inventories | - | - | 208 | 258 | 208 | 258 |
| Loans and borrowings | (1,801) | (1,979) | - | - | (1,801) | (1,979) |
| Provisions | (10,218) | (10,744) | - | - | (10,218) | (10,744) |
| Amounts payable for future user charges | (1,497) | (2,102) | - | - | (1,497) | (2,102) |
| Overburden in advance | - | - | 49,936 | 50,985 | 49,936 | 50,985 |
| Mining property and development | - | - | 15,420 | 15,031 | 15,420 | 15,031 |
| Exploration and evaluation | - | - | 21,229 | 20,156 | 21,229 | 20,156 |
| Foreign currency derivative contracts | (1,350) | - | - | 4,706 | (1,350) | 4,706 |
| Other items | (1,552) | - | - | 7,144 | (1,552) | 7,144 |
| Investments in equity accounted investees | - | - | 6,273 | 5,980 | 6,273 | 5,980 |
| Equity raising costs | (1,286) | (1,588) | - | - | (1,286) | (1,588) |
| Tax (assets)/liabilities | (19,283) | (17,679) | 95,887 | 106,636 | 76,604 | 88,957 |
| Set off of tax | 19,283 | 17,679 | (19,283) | (17,679) | - | - |
| Net tax (assets)/liabilities | - | - | **76,604** | **88,957** | **76,604** | **88,957** |

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Investments in equity accounted investees | **18,144** | **10,843** |

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.

## 13. TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in temporary differences during the year

| | Balance 30 June 09 $'000 | Recognised in profit or loss $'000 | Recognised directly in equity $'000 | Recognised in other comprehensive income $'000 | Balance 30 June 10 $'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** |

| | Balance 30 June 08 $'000 | Recognised in profit or loss $'000 | Recognised directly in equity $'000 | Recognised in other comprehensive income $'000 | Balance 30 June 09 $'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 1,780 | 596 | - | - | 2,376 |
| Inventories | 876 | (618) | - | - | 258 |
| Loans and borrowings | (2,534) | 555 | - | - | (1,979) |
| Employee benefits | (857) | (409) | - | - | (1,266) |
| Provisions | (7,723) | (3,021) | - | - | (10,744) |
| Amounts payable for future user charges | (2,673) | 571 | - | - | (2,102) |
| Overburden in advance | 53,407 | (2,422) | - | - | 50,985 |
| Mining property and development | 15,645 | (614) | - | - | 15,031 |
| Exploration and evaluation | 18,213 | 1,943 | - | - | 20,156 |
| Other items | 5,060 | 2,084 | - | - | 7,144 |
| Foreign currency derivative contracts | 7,689 | (89) | - | (2,894) | 4,706 |
| Investments in equity accounted investees | 6,274 | (294) | - | - | 5,980 |
| Equity raising costs | - | 397 | (1,985) | - | (1,588) |
| | **95,157** | **(1,321)** | **(1,985)** | **(2,894)** | **88,957** |

## 14. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of $125,064,000 (2009: $168,558,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 253,680,737 (2009: 212,681,302), calculated as follows:

#### Profit attributable to ordinary shareholders

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Profit attributable to ordinary shareholders | 125,064 | 168,558 |

#### Weighted average number of ordinary shares

| | 2010 No. shares | 2009 No. shares |
|---|---|---|
| Issued ordinary shares at 1 July | 243,980,249 | 212,156,739 |
| Effect of shares issued in June 2009 | - | 524,563 |
| Effect of shares issued in July 2009 | 9,700,488 | - |
| Weighted average number of ordinary shares at 30 June | 253,680,737 | 212,681,302 |

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 was based on profit attributable to ordinary shareholders of $125,064,000 (2009: $168,558,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 253,814,065 (2009: 212,819,392), calculated as follows:

#### Profit attributable to ordinary shareholders (diluted)

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Net profit attributable to ordinary shareholders (diluted) | 125,064 | 168,558 |

#### Weighted average number of ordinary shares (diluted)

| | 2010 No. shares | 2009 No. shares |
|---|---|---|
| Issued ordinary shares at 1 July | 243,980,249 | 212,156,739 |
| Effect of shares issued in June 2009 | - | 524,563 |
| Effect of shares issued in July 2009 | 9,700,488 | - |
| Effect of unvested rights and vested rights not issued | 133,328 | 138,090 |
| Weighted average number of ordinary shares (diluted) at 30 June | 253,814,065 | 212,819,392 |

## 15. CASH AND CASH EQUIVALENTS

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Cash at bank and on hand | 115,697 | 82,326 |
| Bank deposits | 232,519 | 185,250 |
| Cash and cash equivalents in the statement of cash flows | 348,216 | 267,576 |

The weighted average effective interest rate on the outstanding bank term deposits is 5.7% (2009: 4.1%). The deposits have a weighted average maturity of 62 days (2009: 74 days).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

## 16. TRADE AND OTHER RECEIVABLES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | 70,898 | 38,961 |
| Other receivables and prepayments | 20,805 | 16,002 |
| Amounts receivable from related entities – unsecured | 117,402 | 132,645 |
| | **209,105** | **187,608** |
| **Non-current** | | |
| Security deposits | 35 | 117 |
| Other receivables and prepayments | - | 683 |
| Amounts receivable from related entities – unsecured | 75,274 | - |
| | **75,309** | **800** |

No impairment losses (2009: $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.

## 17. INVENTORIES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Raw materials and consumables, at cost | 11,282 | 8,608 |
| Coal stocks, at cost | 38,480 | 35,004 |
| | **49,762** | **43,612** |
| **Non-current** | | |
| Raw materials and consumables, at cost | - | 187 |
| | **-** | **187** |

Refer Note 23 for details of security over inventories.

Cost of inventories recognised as cost of sales amounted to $331,380,000 (2009: $303,511,000).

## 18. OTHER FINANCIAL ASSETS

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Cash and deposits – not at call | 26,211 | 23,996 |
| Foreign currency derivative contracts | - | 15,686 |
| | **26,211** | **39,682** |
| **Non-current** | | |
| Cash and deposits – not at call | 4,263 | 2,745 |
| | **4,263** | **2,745** |

Non-current cash and 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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Overburden in advance | **146,548** | **138,117** |
| **Non-current** | | |
| Overburden in advance | **19,905** | **31,834** |

## 20. PROPERTY, PLANT AND EQUIPMENT

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Mining property and development (including mining rights and coal resources) | | |
| At cost | 170,310 | 167,859 |
| Less accumulated depreciation | (61,423) | (54,293) |
| | 108,887 | 113,566 |
| Freehold land | | |
| At cost | 3,730 | 3,730 |
| Buildings and infrastructure | | |
| At cost | 95,277 | 85,332 |
| Less accumulated depreciation | (51,952) | (45,031) |
| | 43,325 | 40,301 |
| Plant and equipment | | |
| At cost | 23,359 | 17,826 |
| Less accumulated depreciation | (6,640) | (4,424) |
| | 16,719 | 13,402 |
| Leased assets | | |
| At cost | 116,644 | 111,620 |
| Less accumulated depreciation | (25,388) | (9,384) |
| | 91,256 | 102,236 |
| Capital works in progress | | |
| At cost | 4,055 | 13,562 |
| | **267,972** | **286,797** |

Refer to Note 23 for details of security over property, plant and equipment.

## 20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

**Reconciliations**

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| • Mining property and development | | |
| Carrying amount at 1 July | 113,566 | 96,103 |
| - Additions | 670 | 1,238 |
| - Reclassification from exploration and evaluation assets | - | 21,898 |
| - Effect of movement in rehabilitation asset | 1,836 | 397 |
| - Depreciation | (7,185) | (6,070) |
| Carrying amount at 30 June | **108,887** | **113,566** |
| • Freehold land | | |
| Carrying amount at 1 July | 3,730 | 3,730 |
| - Additions | - | - |
| Carrying amount at 30 June | **3,730** | **3,730** |
| • Buildings and infrastructure | | |
| Carrying amount at 1 July | 40,301 | 44,330 |
| - Additions | 28 | 1,282 |
| - Transfers from capital works in progress | 11,534 | 562 |
| - Effect of movement in dismantling asset | (1,617) | 2,049 |
| - Depreciation | (6,921) | (7,922) |
| Carrying amount at 30 June | **43,325** | **40,301** |
| • Plant and equipment | | |
| Carrying amount at 1 July | 13,402 | 24,935 |
| - Additions | 89 | 1,495 |
| - Transfers from capital works in progress | 5,535 | 6,334 |
| - Disposals | (41) | (17,639) |
| - Depreciation | (2,266) | (1,723) |
| Carrying amount at 30 June | **16,719** | **13,402** |
| • Leased assets | | |
| Carrying amount at 1 July | 102,236 | 18,431 |
| - Additions | 5,024 | 90,798 |
| - Depreciation | (16,004) | (6,993) |
| Carrying amount at 30 June | **91,256** | **102,236** |
| • Capital works in progress | | |
| Carrying amount at 1 July | 13,562 | 1,974 |
| - Additions | 7,562 | 18,484 |
| - Transfers to other classes of property, plant and equipment | (17,069) | (6,896) |
| Carrying amount at 30 June | **4,055** | **13,562** |

## 20. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The following depreciation was recognised as an expense in profit and loss:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Mining property and development | 6,863 | 6,070 |
| Buildings and infrastructure | 6,825 | 7,231 |
| Plant and equipment | 2,192 | 1,573 |
| Leased assets | 15,399 | 6,385 |
| | **31,279** | **21,259** |

### 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 2010, the net carrying amount of leased assets was $91,256,000 (2009: $102,236,000).

## 21. EXPLORATION AND EVALUATION ASSETS

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Costs carried forward in respect of areas of interest in exploration and/or evaluation – intangible | 81,226 | 70,916 |
| **Cost** | | |
| Balance at 1 July | 70,916 | 76,600 |
| Exploration costs written off | - | (330) |
| Reclassification to property, plant and equipment | - | (21,898) |
| Exploration and evaluation costs capitalised | 10,310 | 16,544 |
| Balance at 30 June | **81,226** | **70,916** |

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.

## 22. TRADE AND OTHER PAYABLES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | 28,787 | 16,127 |
| Other payables and accrued expenses | 67,372 | 48,284 |
| Amounts payable to related entities – unsecured | 29,518 | 33,198 |
| | **125,677** | **97,609** |

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. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 28.

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Finance lease liabilities | 13,890 | 12,843 |
| Deferred liability for acquisition of mining interest – unsecured | 1,932 | 1,739 |
| | 15,822 | 14,582 |
| **Non-current liabilities** | | |
| Finance lease liabilities | 79,526 | 88,392 |
| Deferred liability for acquisition of mining interest – unsecured | 4,074 | 4,859 |
| | 83,600 | 93,251 |

**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 10.1% (2009: 10.5%) based on 5.1% (2009: 5.5%) interest plus risk adjusted margin.

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Financial facilities** | | |
| Bank loans – Corporate Facility | | |
| • Amortising cash advance facility (2010: US$Nil and 2009: US$6,000,000) | - | 7,395 |
| • Revolving cash advance facility (2010: US$Nil and 2009: US$20,000,000) | - | 24,649 |
| Bank Guarantee Facility | 65,000 | 65,000 |
| Cash backed bank guarantees | 4,263 | 3,078 |
| | 69,263 | 100,122 |
| **Facilities utilised at reporting date** | | |
| Bank Guarantee Facility | 64,676 | 61,851 |
| Cash backed bank guarantees | 4,263 | 3,078 |
| | 68,939 | 64,929 |
| **Facilities not utilised at reporting date** | | |
| Bank loans – Corporate Facility | | |
| • Amortising cash advance facility (2010: US$Nil and 2009: US$6,000,000) | - | 7,395 |
| • Revolving cash advance facility (2010: US$Nil and 2009: US$20,000,000) | - | 24,649 |
| Bank Guarantee Facility | 324 | 3,149 |
| | 324 | 35,193 |

## 23. LOANS AND BORROWINGS (CONTINUED)

### Corporate Facility

### Bank Loans

During the year ended 30 June 2010 the Group's Corporate cash advance facilities expired with only the Bank Guarantee Facility extended until 31 December 2010 until a new facility is negotiated.

1) Cash advance facilities

(a) Amortising cash advance facility

The facility limit is denominated in United States dollars and was US$Nil (2009: US$30,000,000) as it has been closed during the year ended 30 June 2010. The amortised facility limit at 30 June 2010 is US$Nil (2009: US$6,000,000).

The interest rate applicable to the cash advance facility comprises BBSY (2009: BBSY) plus a minimum margin of 0.95% per annum. There is no effective interest rate at 30 June 2010 (2009: Nil%) as the facility had been closed by the reporting date.

(b) Revolving cash advance facility

The revolving cash advance facility loan limit is denominated in United States dollars and was US$Nil (2009: US$20,000,000) as it had been closed during the year ended 30 June 2010.

The interest rate applicable to the cash advance facility comprises BBSY (2009: BBSY) plus a minimum margin of 0.95% per annum. There is no effective interest rate at 30 June 2010 (2009: Nil%) as the facility had been closed by the reporting date.

2) Bank Guarantee Facility

The bank guarantee facility is denominated in Australian dollars as a A$65,000,000 (2009: A$65,000,000) limit expiring at 31 December 2010. The facility can be drawn in Australian dollars, incorporating a sub-limit of the equivalent of A$4,000,000 (2009: A$4,000,000) which can be drawn in United States dollars. The facility limit at 30 June 2010 is A$65,000,000 (2009: A$65,000,000). Bank guarantee fees are payable at a rate between 0.35% and 0.75% (2009: 0.55%) per annum and a fee of 0.30% (2009: 0.22%) per annum applies to the unused portion of the Bank Guarantee Facility.

*Security*

The Corporate Facility is secured by a guarantee provided by Macarthur Coal Limited and charges over the Group's interest in the Coppabella and Moorvale Joint Venture including all of the assets and undertakings of the controlled entity, Coppabella Coal Pty Ltd and charges over the assets and undertakings of the controlled entity, Macarthur Coal Management Pty Ltd and the Company's shares in Coppabella Coal Pty Ltd and Macarthur Coal Management Pty Ltd and intercompany loans to the controlled entities.

### Assets pledged under security arrangements

The carrying amounts of the pledged non-current assets are as follows:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Mining property and development | 108,887 | 113,566 |
| Land | 3,730 | 3,730 |
| Buildings and infrastructure | 43,325 | 40,301 |
| Plant and equipment | 15,322 | 11,818 |
| Leased assets (refer below) | 91,256 | 102,236 |
| Inventories | - | 187 |
| Capital works in progress | 4,055 | 13,562 |
| Receivables | 75,309 | 748 |
| Overburden in advance | 19,905 | 31,834 |
| | 361,789 | 317,982 |

### Cash backed bank guarantees

The Group utilises cash backed guarantees in addition to the Corporate Facility. No facility limit exists on these instruments.

## 23. LOANS AND BORROWINGS (CONTINUED)

### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

| | Minimum lease payments 2010 $'000 | Interest 2010 $'000 | Principal 2010 $'000 | Minimum lease payments 2009 $'000 | Interest 2009 $'000 | Principal 2009 $'000 |
|---|---|---|---|---|---|---|
| Less than one year | 20,329 | 6,439 | 13,890 | 19,964 | 7,121 | 12,843 |
| Between one and five years | 62,115 | 14,837 | 47,278 | 68,956 | 17,591 | 51,365 |
| More than five years | 36,703 | 4,455 | 32,248 | 43,325 | 6,298 | 37,027 |
| | **119,147** | **25,731** | **93,416** | **132,245** | **31,010** | **101,235** |

*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.

## 24. EMPLOYEE BENEFITS

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Liability for annual leave | 3,886 | 2,931 |
| Liability for sick leave | 941 | 1,009 |
| Liability for long-service leave | 352 | 161 |
| | **5,179** | **4,101** |
| **Non-current liabilities** | | |
| Liability for long-service leave | 87 | 118 |

### Defined contribution superannuation funds

The Group makes contributions to several defined contribution superannuation funds. The amount recognised as an expense was $427,000 for the financial year ended 30 June 2010 (2009: $335,000).

### Long service leave industry fund

The Group makes contributions to the Coal Mining Industry Leave Fund. A total of $897,000 was paid to the fund for the financial year ended 30 June 2010 (2009: $773,000).

### Share-based payments

*Long Term Incentive Plan (LTIP)*

In October 2008 and June 2009 the Group granted 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. There were no rights granted in the 2010 financial year.

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 employees elect to have the shares transferred from the trust. Shares carry full dividend and voting rights upon allocation.

## 24. EMPLOYEE BENEFITS (CONTINUED)

**Share-based payments** (continued)

*Long Term Incentive Plan (LTIP) (continued)*

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).

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 [1] | Balance at the end of the year |
|---|---|---|---|---|---|---|---|---|
| 2010 | | | | | | | | |
| 14 October 2008 | 1 July 2007 to 30 June 2010 | 30 June 2010 | $5.31 | 66,101 | - | (49,395) | (16,706) | - |
| 14 October 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 |
| 2009 | | | | | | | | |
| 14 October 2008 | 1 July 2007 to 30 June 2010 | 30 June 2010 | $5.31 | - | 80,040 | - | (13,939) | 66,101 |
| 14 October 2008 | 1 July 2008 to 30 June 2011 | 30 June 2011 | $3.55 | - | 68,704 | - | (9,193) | 59,511 |
| 29 June 2009 | 1 July 2009 to 30 June 2012 | 30 June 2012 | $5.44 | - | 158,237 | - | - | 158,237 |
| Total | | | | - | 306,981 | - | (23,132) | 283,849 |

[1] Forfeited performance rights relate to those rights with a vesting date of 30 June 2010 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 a result of the performance rights being 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 grant date, 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 2008 | Performance Rights 2009 | Performance Rights 2010 |
|---|---|---|---|
| Grant Date | 14 October 2008 | 14 October 2008 | 29 June 2009 |
| Weighted average fair value at date of grant | $5.31 | $3.55 | $5.44 |
| Share price at date of grant | $6.53 | $6.53 | $6.63 |
| Expected volatility | 60% | 60% | 75% |
| Dividend yield | 8.3% | 8.3% | 3.0% |
| Expected life | 1.8 years | 2.8 years | 3.0 years |
| Risk free interest rate | 4.33% | 4.64% | 4.62% |

## 24. EMPLOYEE BENEFITS (CONTINUED)

**Share-based payments** (continued)

*Fair value of rights granted (continued)*

The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

Changes to the tax legislation that apply to performance rights granted under the Company's LTIP have impacted the key objectives of the LTIP and hence the viability of the plan as it is currently structured. No grants will be made for the 2011 financial year until such time as a restructure of the plan has been undertaken.

*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 | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| Expense arising from 2008 performance rights | | 114 | 146 |
| Expense arising from 2009 performance rights | | 55 | 55 |
| Expense arising from 2010 performance rights | | 199 | 2 |
| Total expense recognised as employee costs | 9 | **368** | **203** |

*Employee Share Loan Plan*

The Group has an Employee Share Loan Plan (ESLP) which is used to provide an opportunity for eligible persons of the Group and approved contractors to acquire shares of the Company. On 15 December 2005, 122,935 shares were acquired for 86 eligible employees at a purchase price of $5.43 per share with a value limit of between $6,000 and $20,000 per employee.

An invitation to participate in the ESLP was not made in the 2010 financial year.

All shares held under the ESLP rank equally with all other shares on issue.

The Group provides interest free loans to all eligible persons to enable them to acquire shares under the ESLP to 100% of the total acquisition price for the shares. Any dividends declared on the shares issued under the ESLP will be used to offset any loans outstanding on the shares. Employees and contractors have also provided irrevocable authority to the Group to deduct 1% of their gross salary each month in repayment of the loan.

The loan will be 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 subsidiaries or associates, or the relevant contractor is terminated for any reason; or

c) the employee becomes insolvent or commits an act of bankruptcy.

The Company holds the shares as security over the loan until the loan is repaid.

The market price of shares held under the ESLP as at 30 June 2010 was $12.12 (2009: $6.60).

There were no other shares eligible for acquisition under the ESLP at 30 June 2010 (2009: Nil).

The number and weighted average acquisition price of shares is as follows:

| | Weighted average exercise price 2010 | Number of shares 2010 | Weighted average exercise price 2009 | Number of shares 2009 |
|---|---|---|---|---|
| Outstanding at the beginning of the year | | 33,126 | | 49,689 |
| Granted during the year | | - | | - |
| Sold and transferred during the year | $11.33 | (11,043) | $7.68 | (16,563) |
| Outstanding at the end of the year | | **22,083** | | **33,126** |

## 25. PROVISIONS

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Rehabilitation and dismantling | 2,642 | 1,911 |
| Other | 817 | - |
| | 3,459 | 1,911 |
| **Non-current** | | |
| Rehabilitation and dismantling | 30,398 | 33,706 |
| Other | 204 | 197 |
| | 30,602 | 33,903 |

During the financial year ended 30 June 2010, $3,966,000 was reversed through profit or loss in respect of rehabilitation expense (2009: expense of $10,249,000).

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Rehabilitation and dismantling** | | |
| Balance at 1 July | 35,617 | 25,571 |
| Provisions (reversed)/made during the year | (3,966) | 10,249 |
| Provisions used during the year | (1,091) | (2,581) |
| Unwind of discount | 2,480 | 2,378 |
| Balance at 30 June | 33,040 | 35,617 |
| **Other** | | |
| Balance at 1 July | 197 | 171 |
| Provisions made during year | 870 | 87 |
| Provisions used during year | (69) | (74) |
| Unwind of discount | 23 | 13 |
| Balance at 30 June | 1,021 | 197 |

### 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).

### Other provisions

At the reporting date, other provisions for the Group includes recognition of an amount relating to a non-cancellable lease due to expire in August 2012 for office space which the Group no longer occupies. The Group has been unsuccessful in finding a suitable sub-lease arrangement and therefore has recognised the obligation for the net present value of the remaining future lease payments. After the reporting date the Group negotiated a termination arrangement with the landlord and the provision will no longer be required effective 31 July 2010.

## 26. OTHER FINANCIAL LIABILITIES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current** | | |
| Amounts payable for future user charges (refer Note 31(e)) | 2,137 | 2,017 |
| Foreign currency derivative contracts | 4,502 | - |
| Other derivative liabilities | - | 1,679 |
| | 6,639 | 3,696 |
| **Non-current** | | |
| Amounts payable for future user charges (refer Note 31(e)) | 2,853 | 4,989 |
| Other derivative liabilities | 32,929 | 17,240 |
| | 35,782 | 22,229 |

### 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 relate to milestones in the development of the Middlemount Mine project. In addition, a contractual obligation exists via a call option agreement to sell a further 20% in Middlemount to the same third party. Obligations under both agreements are 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 liabilities relate to the obligation for the final sell trigger under the share sale agreement and the obligation under the call option agreement.

There is no credit risk or liquidity risk associated with these derivatives. However there is a degree of market risk, due to the impact on the value of these derivatives from fluctuations in coal prices.

## 27. CAPITAL AND RESERVES

| | Company Ordinary shares | |
|---|---|---|
| | 2010 No. Shares | 2009 No. Shares |
| **Share capital** | | |
| On issue at 1 July | 243,980,249 | 212,156,739 |
| Shares issued on equity settled transaction | 10,352,860 | 31,823,510 |
| On issue at 30 June – fully paid | 254,333,109 | 243,980,249 |

### Issuance of ordinary shares

On 24 July 2009 the Group completed a Share Purchase Plan to Australian and New Zealand retail shareholders with the issuance of 10,352,860 ordinary shares at $6.00 per share to raise $62,117,000, resulting in net cash proceeds of $61,997,000 after placement costs. All issued shares are fully paid.

On 19 June 2009 the Group completed an Institutional Placement of 31,823,510 new ordinary shares to raise $190,941,000, resulting in net cash proceeds of $184,283,000 after placement costs. All issued shares were fully paid.

### Ordinary shares

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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

### 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.

## 27. CAPITAL AND RESERVES (CONTINUED)

### Share-based payment reserve

The share-based payment reserve is used to recognise:

- The cumulative value recognised over the vesting period of the 2009 and 2010 share-based performance rights which have not reached the vesting date but are expected to vest; and
- The value of the 2008 share-based performance rights that have vested based on performance conditions being met, which have not yet been settled.

### Dividends

Dividends recognised in the current year by the Company are:

| | Cents per share | Total amount $ | Franked/ unfranked | Date of payment |
|---|---|---|---|---|
| 2010 | | | | |
| 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** | | |
| 2009 | | | | |
| Interim 2009 ordinary | - | - | - | - |
| Final 2008 ordinary | 14.0 | 29,701,943 | Franked | 30 September 2008 |
| Total amount | **14.0** | **29,701,943** | | |

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 2010, 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 2010 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 | 17.0 | 43,236,629 | Franked | 18 October 2010 |

### Dividend franking account

| | Company 2010 $'000 | Company 2009 $'000 |
|---|---|---|
| 30% franking credits available to shareholders of the Company for subsequent financial years | 131,129 | 99,584 |

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

(a) franking credits/debits that will arise from the payment/receipt of the current tax liabilities/assets;

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

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated group at year end; and

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

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

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by $18,530,000 (2009: $14,170,000).

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 $131,129,000 (2009: $99,584,000) 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 | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| Cash and cash equivalents | 15 | 348,216 | 267,576 |
| Cash and deposits – not at call | 18 | 30,474 | 26,741 |
| Trade and other receivables | 16 | 284,414 | 188,408 |
| Forward exchange contracts used for hedging – assets | 18 | - | 15,686 |
| | | **663,104** | **498,411** |

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Asia | 20,881 | 19,582 |
| Europe | 32,694 | 19,379 |
| Americas | 17,323 | - |
| | **70,898** | **38,961** |

Concentration of credit risk at the reporting date on trade receivables was: Asia 30%, Europe 46% and Americas 24% (2009: Asia 50%, Europe 50% and Americas Nil%).

The geographical mix at the reporting date for trade receivables is influenced by the timing of shipments to customers during the months of April to 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 2010 sales distribution by geographic region is Asia 63%, Europe 25% and Americas 12% (2009: Asia 54%, Europe 37% and Americas 9%).

### Impairment losses

None of the Group's receivables are past due (2009: $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.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| 2010 | 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 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| 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) | - | - | - | - |
| **Derivative financial liabilities** | | | | | | | |
| 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)** |

| 2009 | 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 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Finance lease liabilities | 101,235 | (132,245) | (9,982) | (9,982) | (19,400) | (49,556) | (43,325) |
| Deferred liability for acquisition of mining interest | 6,598 | (9,358) | (1,039) | (1,039) | (2,080) | (5,200) | - |
| Amounts payable for future user charges | 7,006 | (7,743) | (1,191) | (1,191) | (2,383) | (2,978) | - |
| Trade and other payables | 97,609 | (97,609) | (97,609) | - | - | - | - |
| **Derivative financial liabilities** | | | | | | | |
| Forward exchange contracts used for hedging: | | | | | | | |
| Outflow | 192,882 | (192,882) | (128,382) | (64,500) | - | - | - |
| Inflow | (208,568) | 208,568 | 132,243 | 76,325 | - | - | - |
| | **196,762** | **(231,269)** | **(105,960)** | **(387)** | **(23,863)** | **(57,734)** | **(43,325)** |

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.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### 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:

| | 2010 USD$'000 | 2009 USD$'000 |
|---|---|---|
| Trade receivables | 60,426 | 31,613 |
| Trade and other payables | (20,312) | (9,523) |
| Gross financial position exposure | 40,114 | 22,090 |
| | | |
| Contracted forecast sales | 244,013 | 416,427 |
| Estimated forecast purchases | (9,640) | (20,095) |
| Gross exposure | 234,373 | 396,332 |
| | | |
| Forward exchange contracts | (197,519) | (155,435) |
| Net exposure | **76,968** | **262,987** |

In line with the Group's Treasury Policy, additional forward exchange contracts have been placed post 30 June 2010 for the 2011 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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| USD | 0.8759 | 0.7442 | 0.8523 | 0.8114 |

*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 2009.

| | Equity $'000 | Profit or loss $'000 |
|---|---|---|
| **30 June 2010** | | |
| USD | (21,288) | (4,279) |
| | | |
| **30 June 2009** | | |
| USD | (19,156) | (5,275) |

A 10% weakening of the Australian dollar against the United States dollar at 30 June would have had the equal but opposite effect to 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:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial liabilities | (98,406) | (108,241) |
| | **(98,406)** | **(108,241)** |
| | | |
| **Variable rate instruments** | | |
| Financial assets | 378,690 | 294,317 |
| Financial liabilities | (6,006) | (6,598) |
| | **372,684** | **287,719** |

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### Interest rate risk (continued)

*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 2009.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| | 100bp increase $'000 | 100bp decrease $'000 | 100bp increase $'000 | 100bp decrease $'000 |
| 30 June 2010 | | | | |
| Variable rate instruments | (107) | 107 | - | - |
| Cash flow sensitivity (net) | **(107)** | **107** | **-** | **-** |
| | | | | |
| 30 June 2009 | | | | |
| Variable rate instruments | 880 | (880) | - | - |
| Cash flow sensitivity (net) | **880** | **(880)** | **-** | **-** |

### 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 |
|---|---|---|---|---|
| | 2010 $'000 | 2010 $'000 | 2009 $'000 | 2009 $'000 |
| Cash and cash equivalents | 348,216 | 348,216 | 267,576 | 267,576 |
| Trade and other receivables | 284,414 | 284,414 | 188,408 | 188,408 |
| Cash and deposits – not at call | 30,474 | 30,474 | 26,741 | 26,741 |
| Foreign currency derivative contracts: | | | | |
| Assets | - | - | 15,686 | 15,686 |
| Liabilities | (4,502) | (4,502) | - | - |
| Trade and other payables | (125,677) | (125,677) | (97,609) | (97,609) |
| Deferred liability for acquisition of mining interest | (6,006) | (6,006) | (6,598) | (6,598) |
| Finance lease liabilities | (93,416) | (89,141) | (101,235) | (93,707) |
| Other derivative liabilities* | (32,929) | (32,929) | (18,919) | (18,919) |
| Employee benefits | (5,266) | (5,266) | (4,219) | (4,219) |
| Other financial liabilities | (4,990) | (4,990) | (7,006) | (7,006) |
| Unrecognised gains | | **4,275** | | **7,528** |

* 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.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value measurements

The following table presents the Group's financial instruments carried at fair value, measured by a valuation method. The different levels in the fair value measurement hierarchy are 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).

| 30 June 2010 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Foreign currency derivative contracts liability | - | 4,502 | - | 4,502 |
| Other derivative liabilities | - | - | 32,929 | 32,929 |
| | **-** | **4,502** | **32,929** | **37,431** |

The following table reconciles Level 3 of the fair value hierarchy from the opening balance at 1 July 2009 to the closing balance at 30 June 2010:

| | Other derivative liabilities $'000 |
|---|---|
| Opening balance | (18,919) |
| Loss recognised in profit and loss (within other expenses) | (14,010) |
| 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. By changing one or more of the unobservable inputs to reasonably possible alternative assumptions, the fair value measurement of the derivative liabilities would have the following effects:

| | Favourable $'000 | (Unfavourable) $'000 |
|---|---|---|
| Other derivative liabilities | 22,459 | (28,971) |

The key input in the valuation of the derivative liabilities is the net present value of the discounted cash flows to be generated from the Middlemount Mine project. The favourable and unfavourable effects have been calculated by changing the forecasted long-term coal prices in the discounted cash flows model by 5% (e.g. decrease in coal prices has a favourable effect on the liabilities).

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### 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:

| | 2010 % | 2009 % |
|---|---|---|
| Derivatives | 3.1 – 4.3 | 3.1 – 4.3 |
| Deferred liability for acquisition of mining interest - Note 23 | 10.1 | 10.5 |

## 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 | | |
|---|---|---|---|
| | 2010 | 2009 | Principal activity |
| Coppabella and Moorvale Joint Venture | 73.3% | 73.3% | Coal production |
| Monto Coal Joint Venture | 41%[(1)] | 41%[(1)] | 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 2010, the contribution of the Coppabella and Moorvale Joint Venture to the operating profit before tax of the Group was $213,906,000 (2009: $264,310,000). The value of the Group's 73.3% share of the Coppabella and Moorvale Joint Venture coal sold (pre hedging) during the year was $630,264,000 (2009: $828,805,000).

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

## 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).

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current assets** | | |
| Trade and other receivables | 23,067 | 91,571 |
| Inventories | 49,762 | 43,612 |
| Other financial assets | 26,211 | 23,996 |
| Overburden in advance | 146,548 | 138,117 |
| Total current assets | **245,588** | **297,296** |
| **Non-current assets** | | |
| Trade and other receivables | 73,718 | 748 |
| Inventories | - | 187 |
| Other financial assets | 4,263 | 2,745 |
| Property, plant and equipment | 266,575 | 285,213 |
| Exploration and evaluation assets | 81,226 | 70,916 |
| Overburden in advance | 19,905 | 31,834 |
| Total non-current assets | **445,687** | **391,643** |
| **Total assets** | **691,275** | **688,939** |
| **Current liabilities** | | |
| Trade and other payables | 84,000 | 58,608 |
| Loans and borrowings | 13,890 | 12,843 |
| Provisions | 2,642 | 1,911 |
| Other financial liabilities | 2,137 | 2,017 |
| Total current liabilities | **102,669** | **75,379** |
| **Non-current liabilities** | | |
| Loans and borrowings | 79,526 | 88,392 |
| Provisions | 30,398 | 33,706 |
| Other financial liabilities | 2,853 | 4,989 |
| **Total non-current liabilities** | **112,777** | **127,087** |
| **Total liabilities** | **215,446** | **202,466** |

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).

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Revenue | 670,502 | 695,417 |
| Expenses | (523,022) | (445,229) |
| **Net Profit** | **147,480** | **250,188** |

## 30. EQUITY ACCOUNTED INVESTEES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Investments in jointly controlled entities | 338,554 | 358,130 |

The Group's share of losses from its equity accounted investees for the year was $10,934,000 (2009: $12,338,000). During the years ended 30 June 2010 and 30 June 2009 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 is:

| 30 June 2010 | Middlemount Coal Pty Ltd $'000 | Monto Coal 2 Pty Ltd $'000 | Custom Mining Dingo Pty Ltd $'000 |
|---|---|---|---|
| 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 | - |
| **Total assets** | **215,404** | **75,246** | **-** |
| Current liabilities | 182,007 | 2,579 | - |
| Non-current liabilities | - | 7,568 | 20 |
| **Total liabilities** | **182,007** | **10,147** | **20** |
| Revenue | 14,960 | 259 | - |
| Expenses | (29,380) | (414) | - |
| **Loss** | **(14,420)** | **(155)** | **-** |
| **30 June 2009** | | | |
| Percentage held at the reporting date | 74.66% | 80.39% | 85.715% |
| Current assets | 20,878 | 5,396 | 1 |
| Non-current assets | 124,337 | 67,794 | - |
| **Total assets** | **145,215** | **73,190** | **1** |
| Current liabilities | 97,398 | 367 | - |
| Non-current liabilities | - | 7,568 | 21 |
| **Total liabilities** | **97,398** | **7,935** | **21** |
| Revenue | 119 | 118 | 19 |
| Expenses | (9,139) | (789) | (8,126) |
| **Loss** | **(9,020)** | **(671)** | **(8,107)** |

## 30. EQUITY ACCOUNTED INVESTEES (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 2010 $'000 | Group's share of losses 2009 $'000 |
|---|---|---|---|---|
| Custom Mining Dingo Pty Ltd | Dormant | 30 June | - | 5,187 |
| Middlemount Coal Pty Ltd and its controlled entities | Operator of Middlemount Mine project | 30 June | 10,810 | 6,612 |
| Monto Coal 2 Pty Ltd | Participant in the Monto Coal Joint Venture | 30 June | 124 | 539 |

### Middlemount Coal Pty Ltd and its controlled entities

During the year the Group disposed of 2.18% of Middlemount Coal Pty Ltd in accordance with the terms of a Share Sale Agreement for the fixed consideration of $7,000,000.

No impairment of the investment at 30 June 2010 was necessary based on the recoverable amount of the Middlemount Mine project exceeding the carrying value. The recoverable amount was based on its value-in-use as determined internally by management. The value-in-use 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 value-in-use calculation longer than five years is appropriate given the long-term nature of the asset and the measured recoverable coal reserves.
- Revenues for the 2011 financial year through to the 2013 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 coal price assumptions based on the average of analyst forecasts as determined for years 2014 to 2016 and the average of analyst forecasts for long-term coal prices commencing from the last quarter of the 2016 financial year. A discount to the average analyst prices has been provided for of between 3-5% to reflect product specification differences.
- Operating and capital costs are based on current contracts and expected future costs as determined by the Group.
- The resulting cash flows were then discounted using a real post tax discount rate of 9.0%.

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 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 value-in-use by $34,000,000. This would not result in a material impairment.
- A five percent increase in forecast operating costs, holding all other variables constant, would have decreased value-in-use by $76,000,000. 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 value-in-use by $117,000,000. 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 2010 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.

### Custom Mining Dingo Pty Ltd

In the 2009 financial year the Group disposed of a 14.285% interest in Custom Mining Dingo Pty Ltd which was previously accounted for as a wholly owned subsidiary. Under the terms of the shareholder agreement, the Group no longer has control over the entity for accounting purposes and it has therefore been deconsolidated and since 28 August 2008 has been accounted for as a jointly controlled entity.

## 30. EQUITY ACCOUNTED INVESTEES (CONTINUED)

### Custom Mining Dingo Pty Ltd (continued)

In addition, during 2009 Custom Mining Dingo Pty Ltd reached an agreement with Bandanna Energy Limited to withdraw from the Dingo West Joint Venture. Custom Mining Dingo Pty Ltd's withdrawal followed its review of exploration results and feasibility investigations which concluded that due to the nature of the farm-in obligations and the complex geology of the site, the project was less attractive than other project development opportunities that the Group was pursuing at that time.

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Commitments** | | |
| Share of capital expenditure commitments of jointly controlled entities payable: | | |
| Not later than one year | 8,461 | 24,155 |
| | **8,461** | **24,155** |
| Share of mining lease commitments of jointly controlled entities payable: | | |
| Not later than one year | 83 | 20 |
| Later than one year but not later than five years | 250 | 20 |
| Later than five years | 515 | 29 |
| | **848** | **69** |
| Share of operating commitments of jointly controlled entities payable: | | |
| Not later than one year | 15,276 | 3,830 |
| Later than one year but not later than five years | 186,893 | - |
| Later than five years | 166,831 | - |
| | **369,000** | **3,830** |

### Guarantees

Middlemount Coal Pty Ltd has provided guarantees in relation to rehabilitation works for a mineral development license and Wiggins Island feasibility study costs. 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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **(a) Capital expenditure commitments – joint ventures** | | |
| Capital expenditure contracted but not provided for in the financial statements and payable: | | |
| Not later than one year | 1,135 | 9,025 |
| | **1,135** | **9,025** |
| **(b) Operating lease commitments** | | |
| Future operating lease rentals not provided for in the financial statements and payable: | | |
| Not later than one year | 2,867 | 2,790 |
| Later than one year but not later than five years | 6,601 | 7,606 |
| Later than five years | 1,088 | 2,122 |
| | **10,556** | **12,518** |

The Group leases office equipment, cars and office space under operating leases. Lease payments for the office lease is increased every year to reflect market rentals.

During the year ended 30 June 2010, $1,397,000 was recognised as an expense in profit or loss in respect of operating leases (2009: $1,074,000).

## 31. CAPITAL AND OTHER COMMITMENTS (CONTINUED)

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **(c) Mining leases – joint ventures** | | |
| Future mining lease rentals not provided for in the financial statements and payable: | | |
| Not later than one year | 416 | 520 |
| Later than one year but not later than five years | 1,381 | 1,695 |
| Later than five years | 2,875 | 3,723 |
| | **4,672** | **5,938** |
| **(d) Exploration and evaluation expenditure** | | |
| Exploration obligations | | |
| In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. The expenditure obligations are subject to renegotiation when application for a mining lease and/or renewal of exploration permits is made and at other times. These obligations are not provided for in the financial statements and are payable: | | |
| Not later than one year | 797 | 1,596 |
| Later than one year but not later than five years | 132 | 949 |
| | **929** | **2,545** |
| **(e) Operating commitments – joint ventures** | | |
| Commitments under the electricity, water, rail, port, coal washing plant, train loading facility and accommodation agreements for joint ventures not provided for in the financial statements and payable: | | |
| Not later than one year | 143,195 | 96,087 |
| Later than one year but not later than five years | 428,004 | 329,835 |
| Later than five years | 439,713 | 469,103 |
| | **1,010,912** | **895,025** |

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 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 (2010: Group share of $596,000 per quarter; 2009: $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 2010 (refer Note 26).

**(f) Other commitments**

**Joint Ventures**

*Deeds of cross charge*

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

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

(iii) The payment of future cash calls by Olive Downs Coal Pty Ltd, a controlled entity, for its share of operating and capital costs in the Olive Downs (South) Joint Venture 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.

## 31. CAPITAL AND OTHER COMMITMENTS (CONTINUED)

(f) Other commitments (continued)

Joint Ventures (continued)

*Deeds of cross charge (continued)*

(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 2010. [1]

[1] These contingent liabilities are considered remote.

### Guarantees

The Company provides guarantees in relation to the operations of the Group for payments in relation to leased equipment (refer Note 23), royalties, accommodation facilities and certain joint venture undertakings.

The Company provides letters of support to Middlemount Coal Pty Ltd, a jointly controlled entity, and to the associated entities listed in Note 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 $14,660,000 (2009: $Nil) 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.

The Group has provided bank guarantees totalling $4,501,000 (2009: $3,203,000) in respect of the Wiggins Island feasibility study and the Company's Brisbane head office. These amounts are secured by bank deposits of $4,263,000 (2009: $3,078,000). [1]

Coppabella Coal Pty Ltd, a controlled entity, as a participant of the Coppabella and Moorvale Joint Venture, has provided bank guarantees totalling $64,676,000 (2009: $61,851,000) in respect of rehabilitation works, electricity, water and transport infrastructure corridor facilities. [1]

[1] These contingent liabilities are considered remote.

## 32. CONTINGENCIES (CONTINUED)

### 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 2010 is $35,251,000 (2009: $29,799,000) (included in the amount of guarantees referred to above).[1]

[1] These contingent liabilities are considered remote.

### Litigation

*Monto*

A statement of claim was delivered to Monto Coal Pty Ltd, a wholly owned subsidiary of the Company, and Monto Coal 2 Pty Ltd, an equity accounted investee, on 1 October 2007 from the minority interest holders in the Monto Coal Joint Venture being Sanrus Pty Ltd, Edge Developments Pty Ltd and H & J Enterprises (Qld) Pty Ltd. The claim seeks damages stated to be no less than $68,970,000 plus interest and costs.

Monto Coal Pty Ltd is the manager of the Monto Coal Project pursuant to a Management Agreement. Monto Coal 2 Pty Ltd holds a 51% interest in the Monto Coal Joint Venture.

The Directors of the Group (and the Manager) dispute the above claims and will vigorously defend their position. In the Directors' opinion, disclosure of any further information about the above matter would be prejudicial to the interests of the Group.

## 33. GROUP ENTITIES

| | Ownership interest 2010 % | Ownership interest 2009 % |
|---|---|---|
| **Parent entity** | | |
| Macarthur Coal Limited | | |
| **Subsidiaries** | | |
| Coppabella Coal Pty Ltd | 100 | 100 |
| Macarthur Coal Management Pty Ltd | 100 | 100 |
| Macarthur Coal Mine Management Pty Ltd | 100 | 100 |
| Macarthur Rush Pty Ltd | 100 | 100 |
| Moorvale Coal Pty Ltd | 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 |

All subsidiaries were incorporated and carry on business in Australia.

## 34. INVESTMENTS IN ASSOCIATED ENTITIES

| | Principal activities | Reporting date | Interest held 2010 % | Interest held 2009 % |
|---|---|---|---|---|
| Macarthur Coal (C&M Management) Pty Ltd[1] | Manager of the Coppabella and Moorvale Joint Venture | 30 June | 73.3 | 73.3 |
| Bistrotel Pty Ltd[1] | Property Owner | 30 June | 73.3 | 73.3 |
| Macarthur Coal (C&M Equipment) Pty Ltd[1] | Equipment Finance | 30 June | 73.3 | 73.3 |

[1] Investments in these entities are held in connection with joint venture arrangements. Under these arrangements, the Group does not have control over these associated entities, and accordingly have not been consolidated. The impact of the results and operations of these associated entities are not material to the Group and accordingly have not been equity accounted.

## 35. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND JOINT VENTURE INTERESTS

### Acquisitions

There were no acquisitions in the current or prior year.

### Disposals

There were no disposals of subsidiaries or joint venture interests in the current year.

On 28 August 2008, the Group completed the partial disposal of a 14.285% interest in Custom Mining Dingo Pty Ltd for $6,500,000 in cash, reducing the Group's ownership interest to 85.715%. Under the terms of the shareholder agreement, the Group no longer has control over this entity for accounting purposes and, accordingly it has been deconsolidated and accounted for as a jointly controlled entity (refer to Note 30). The carrying amount of Custom Mining Dingo Pty Ltd's net assets in the consolidated financial statements on the date of the disposal was $9,524,000. The Group recognised a profit (before tax) on disposal of $5,139,000 during the year ended 30 June 2009.

*Effect of Disposal*

The disposal had the following effect on the Group's assets and liabilities for the year ended 30 June 2009:

| | Pre-disposal Carrying Amount $'000 | Fair Value Adjustment $'000 | Recognised values on disposal $'000 |
|---|---|---|---|
| Loans to controlled entities | 9,500 | - | 9,500 |
| Exploration and evaluation | 39 | - | 39 |
| Other assets | 5 | - | 5 |
| Deferred tax liability | (20) | - | (20) |
| Net identifiable assets and liabilities | 9,524 | - | 9,524 |
| Carrying value of interest disposed | | | 1,361 |
| Consideration received, satisfied in cash | | | 6,500 |
| Net cash inflow | | | **6,500** |

## 36. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit for the year | 125,064 | 168,558 |
| Adjustments for: | | |
| Depreciation and amortisation | 31,279 | 21,249 |
| Intercompany debt forgiveness | - | 44 |
| Share-based payments | 425 | 146 |
| Amounts set aside to (reversed from) provisions | (4,475) | 3,671 |
| Exploration and evaluation expenses | - | 330 |
| Foreign exchange losses | 1,142 | 815 |
| Interest on loans and borrowings | 8,072 | 4,721 |
| Interest on unwinding of discount | 4,097 | 2,378 |
| Borrowing costs | - | 1,813 |
| Loss on disposal of property, plant and equipment | 42 | 35 |
| Loss on partial disposal of interest in equity accounted investee | 1,641 | - |
| Gain on disposal of non-current assets | - | (5,139) |
| Change in fair value of other derivative liabilities | 14,010 | (7,771) |
| Share of loss of equity accounted investees | 10,934 | 12,338 |
| Operating profit before changes in working capital | 192,231 | 203,188 |
| Increase/(decrease) in income tax payable | (3,557) | 58,582 |
| (Increase)/decrease in net deferred tax liabilities/assets | (12,353) | 6,200 |
| (Increase)/decrease in income tax receivable | - | 15,439 |
| (Increase)/decrease in trade and other receivables | (35,975) | (16,505) |
| (Increase)/decrease in inventories | (5,963) | (15,908) |
| (Increase)/decrease in overburden in advance | 3,501 | 5,196 |
| Increase/(decrease) in trade and other payables | 38,197 | (43,148) |
| Increase/(decrease) in employee benefits | 1,047 | 1,361 |
| Net cash from operating activities | 177,128 | 214,405 |

## 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 De Lacy (Chairman)

Roger Marshall

Peter Forbes

Chen Zeng

Martin Kriewaldt

Terry O'Reilly

*Executive Director*

Nicole Hollows

## 37. RELATED PARTIES (CONTINUED)

*Executives*

Peter Kane (Chief Operating Officer, Macarthur Coal Limited)

Gary Lee (Vice President, Marketing, Macarthur Coal Limited)

Lisa Dalton (EGM Corporate Services & Company Secretary, Macarthur Coal Limited)

Michael Gray (EGM – Projects & Infrastructure, Macarthur Coal Limited, appointed 20 July 2009)

Stuart Hatton (Chief Financial Officer, Macarthur Coal Limited, resigned 30 October 2009)

Shane Stephan (Chief Development Officer, Macarthur Coal Limited, resigned 21 August 2009)

### Key management compensation

The Key Management Personnel compensation included in 'personnel expenses' (see Note 9) are as follows:

| | 2010 $ | 2009 $ |
|---|---|---|
| Short-term employee benefits | 4,045,484 | 3,452,339 |
| Other long-term benefits | 143,745 | 84,335 |
| Post-employment benefits | 240,407 | 332,544 |
| Share-based payments [(1)] | 1,190,124 | 306,412 |
| | **5,619,760** | **4,175,630** |

[(1)] Includes shares provided to Directors as part of compensation and expense during the year relating to performance rights to Executives.

### Loans to Key Management Personnel and their Related Parties

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the Group to Key Management Personnel and their related parties, and the number of individuals in each group are as follows:

| | 2010 | 2009 |
|---|---|---|
| Loans to Key Management Personnel – unsecured | - | $8,420 |
| Number of Key Management Personnel in Group at 30 June | - | 1 |

No loans were made to Key Management Personnel during the year (2009: $Nil) in respect of the employee share loan plan. During the year, repayments of $8,420 (2009: $3,768) were made on the loans.

All loans to Key Management Personnel in relation to the employee share loan plan are interest free and any dividends received on the allocated shares are applied to repay the loan balance. Fixed regular loan repayments are also made to repay the loan balance. No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

Had interest been charged on the loan balances, this would have amounted to a charge of $88 (2009: $348) for the year for all Key Management Personnel loans.

### Individual Directors and Executives compensation disclosures

Information regarding individual Directors' and Executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report.

No Director has entered into a material contract with the 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.

## 37. RELATED PARTIES (CONTINUED)

### 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 2009 or 2010. As at 30 June 2010, a number of performance rights held by Key Management Personnel of the Group vested, but had not been settled. 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.

### 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 2009 | Acquisitions | Received on exercise of options or rights | Disposals | Held at 30 June 2010 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Keith De Lacy | 304,240 | 17,500[2] | - | 100,000 | 221,740 |
| Roger Marshall | 154,240 | 17,500[2] | - | - | 171,740 |
| Peter Forbes | 52,240 | 17,500[2] | - | - | 69,740 |
| Chen Zeng | 10,000 | 17,500[2] | - | - | 27,500 |
| Martin Kriewaldt | 1,000 | 14,680[3] | - | - | 15,680 |
| Terry O'Reilly | 233,304 | 14,680[3] | - | - | 247,984 |
| Nicole Hollows | 14,500 | - | - | - | 14,500 |
| **Executives** | | | | | |
| Peter Kane | 11,552 | 2,500 | - | - | 14,052 |
| Gary Lee | 3,682 | - | - | - | 3,682 |
| Lisa Dalton | - | - | - | - | - |
| Michael Gray[1] | - | 4,341 | - | - | 4,341 |
| Shane Stephan[1] | 5,682 | - | - | - | 5,682 |
| Stuart Hatton[1] | - | - | - | - | - |

[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.

There were no shares granted to Key Management Personnel during the year (2009: Nil) as compensation, other than the shares granted to Directors in the current and prior year as application of Directors' fees as detailed in Note 3(l).

## 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 2008 | Acquisitions | Received on exercise of options or rights | Disposals | Held at 30 June 2009 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Keith De Lacy | 294,240 | 10,000[2] | - | - | 304,240 |
| Roger Marshall | 144,240 | 10,000[2] | - | - | 154,240 |
| Peter Forbes | 42,240 | 10,000[2] | - | - | 52,240 |
| Chen Zeng | - | 10,000[2] | - | - | 10,000 |
| Martin Kriewaldt[1] | 1,000 | - | - | - | 1,000 |
| Terry O'Reilly[1] | 233,304 | - | - | - | 233,304 |
| Nicole Hollows | 10,000 | 4,500 | - | - | 14,500 |
| **Executives** | | | | | |
| Peter Kane | - | 11,552 | - | - | 11,552 |
| Gary Lee | 3,682 | - | - | - | 3,682 |
| Lisa Dalton | - | - | - | - | - |
| Shane Stephan | 5,682 | - | - | - | 5,682 |
| Stuart Hatton | - | - | - | - | - |
| Belinda Smith[1] | 1,104 | - | - | - | 1,104 |

[1] Shareholding information for Key Management Personnel who were not Key Management Personnel for the whole year is only for that portion of the year during which they held a key management position. For the purposes of this table, shares held at appointment are assumed to have been held at 1 July and shares held at termination are assumed to be held at 30 June, with any acquisitions or disposals prior to appointment or after termination not shown.

[2] Relates to 10,000 shares granted as compensation for the 2008 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 $72,073,000 were made to CITIC during the year (2009: $4,643,000). These transactions were on an arms' length basis. At year end, there were no outstanding receivables from CITIC (2009: $Nil)

## 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 $44,484,000 (2009: $30,421,000) 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 $24,944,000 (2009: $9,214,000) 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 (2009: $30,801,000) 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 $52,696,000 were made during the year (2009: $31,850,000). An additional amount of $906,000 (2009: $812,000) 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 $29,518,000 (2009: $33,198,000), 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 2010 the parent company of the Group was Macarthur Coal Limited.

| | Company | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| **Result of the parent entity** | | |
| Profit for the period | 125,182 | 25,909 |
| Other comprehensive income | - | - |
| Total comprehensive income for the period | **125,182** | **25,909** |
| | | |
| **Financial position of parent entity at reporting date** | | |
| Current assets | 424,040 | 355,628 |
| Total assets | 1,065,997 | 946,913 |
| | | |
| Current liabilities | 44,318 | 96,135 |
| Total liabilities | 277,710 | 292,340 |
| | | |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 713,420 | 651,423 |
| Share-based payment reserve | 399 | 146 |
| Retained earnings | 74,468 | 3,004 |
| Total equity | **788,287** | **654,573** |

## 38. PARENT ENTITY DISCLOSURES (CONTINUED)

### Litigation

Refer to Note 32 for details of litigation faced by the Company.

| | Company | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Parent entity commitments for operating leases** | | |
| Future operating lease rentals not provided for in the financial statements and payable: | | |
| Not later than one year | 2,867 | 2,443 |
| Later than one year but not later than five years | 6,601 | 6,741 |
| Later than five years | 1,088 | 2,122 |
| | **10,556** | **11,306** |

| | Company | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Parent entity commitments on behalf of joint ventures** | | |
| 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 | 32,437 | 21,490 |
| Later than one year but not later than five years | 175,270 | 157,345 |
| Later than five years | 276,478 | 326,577 |
| | **484,185** | **505,412** |

### Guarantees

The Company has provided bank guarantees totalling $422,000 (2009: $422,000) in respect of the Company's Brisbane head office. These amounts are secured by bank deposits to the value of $333,000 (2009: $333,000).[1]

[1] This contingent liability is considered remote.

Refer to Note 32 for details of other guarantees provided by the Company.

## 39. SUBSEQUENT EVENTS

Macarthur Coal has entered into a binding term sheet with MCG Group Companies ("MCG Companies") to acquire shares in an incorporated joint venture with the MCG Companies to develop MDL162 (MCC:90% and MCG Companies:10%) ("Acquisition"). The Acquisition is subject to the approval of the Foreign Investment Review Board ("FIRB") and the parties have agreed to negotiate comprehensive legal documentation in relation to the acquisition.

Macarthur will pay $334.35 million in cash to the MCG Companies for a 90% interest in the incorporated joint venture and the funds will be used by the MCG Companies to complete the acquisition of MDL162 from Stanwell Corporation Limited ("Stanwell"). MDL162 is a deposit of predominantly metallurgical coal with rail infrastructure in close proximity. Macarthur will also contribute $25.65 million to MCG for funding of exploration and to undertake a Bankable Feasibility Study. Macarthur intends to raise in excess of A$400 million to fund the Acquisition through an institutional placement and share purchase plan.

The MCG Companies have an unconditional purchase agreement with Stanwell to acquire MDL162, and the consent of Stanwell has been sought to extend the time for completion of the acquisition, pending the approval of FIRB.

The Directors of Macarthur believe it is impracticable to disclose the fair values of the assets and liabilities of the incorporated joint venture as at 24 August 2010, as there are certain conditions and requirements of the term sheet that remain outstanding that may impact the transaction. It is the expectation of the Board that all elements of the transaction will become unconditional in late September 2010.

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

# MACARTHUR COAL LIMITED
## 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 104 to 163, and the Remuneration Report in the Directors' Report set out on pages 85 to 99, 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 2010 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 EGM - Finance for the financial year ended 30 June 2010.

Dated at Brisbane this 24th day of August 2010.

Signed in accordance with a resolution of the Directors:

Keith De Lacy
Chairman

## REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of the Group comprising Macarthur Coal Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory Notes 1 to 39 and the Directors' declaration.

*Directors' responsibility for the financial report*

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a 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.

*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 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 85 to 99 of the Directors' report for the year ended 30 June 2010. 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 (except for Section 5.3.4 of the Remuneration Report which is unaudited) of Macarthur Coal Limited for the year ended 30 June 2010 complies with Section 300A of the *Corporations Act 2001*.

KPMG

Robert S Jones
*Partner*

Brisbane
24 August 2010

Additional copies of this report can be obtained by contacting the Communication Officer (see details below). A copy is also accessible on the Macarthur Coal website: **www.macarthurcoal.com.au**

| Calendar of Events | |
|---|---|
| Date | Event |
| 25 August 2010 | Full Year 2010 Results lodged with ASX |
| 25 October 2010 | September 2010 Quarterly Report lodged with ASX |
| 27 October 2010 | Annual General Meeting, 11am, Brisbane Convention and Exhibition Centre |
| 26 January 2011 | December 2010 Quarterly Report lodged with ASX |
| 23 February 2011 | Half Year 2011 Results lodged with ASX |
| 27 April 2011 | March 2011 Quarterly Report lodged with ASX |
| 27 July 2011 | June 2011 Quarterly Report lodged with ASX |
| 24 August 2011 | Full Year 2011 Results lodged with ASX |
| 26 October 2011 | September 2011 Quarterly Report lodged with ASX |

Please note all documents lodged with the ASX are also provided on the Macarthur Coal website under Investor Relations: **www.macarthurcoal.com.au**

### DIVIDEND POLICY
The Macarthur Coal Dividend Policy is to pay approximately 50% of net profit after tax as a dividend.

### DIVIDEND REINVESTMENT PLAN
Macarthur Coal announced the establishment of a Dividend Reinvestment Plan (DRP) on 17 August 2010. The 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 are free to participate. However, participation by other shareholders is conditional on the laws where shareholders reside. The DRP rules are available on the website: **www.macarthurcoal.com.au**

### 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 website: **www.macarthurcoal.com.au**

### CONTINUOUS DISCLOSURE
Copies of Macarthur Coal's announcements since the Company listed as a public company (including all quarterly, half yearly and annual reports) are available on the Macarthur Coal website: **www.macarthurcoal.com.au**

Shareholders may register to receive ASX announcements via email by visiting the investor information section of the website.

### WEBSITE
Macarthur Coal's website (**www.macarthurcoal.com.au**) enables stakeholders to access Company information at their convenience. The website contains the following:

- Macarthur Coal's mining interests
- Macarthur Coal's project portfolio
- Executive Management and Board of Directors' details
- Share price
- Share registry details
- All announcements made to the ASX
- General Meeting information
- Notices of Meetings
- Chairman's and CEO's addresses
- Resolution results
- Corporate governance policies

### SHARE REGISTRY
Computershare Limited maintains Macarthur Coal's share registry.

### COMPUTERSHARE
Level 19, 307 Queen Street
Brisbane QLD 4000
GPO Box 523
Brisbane QLD 4001
Phone: 1300 552 270 (within Australia)
61 7 3237 2100 (outside Australia)
Fax: 07 3229 9860
Website: **www-au.computershare.com**

The following shareholder forms are available from Computershare and are on the Computershare website:

- change of address notification
- change of account designation
- direct credit instruction
- minor(s) statement and indemnity
- name change statutory declaration
- name correction request and indemnity
- request to consolidate holdings
- standard transfer
- Annual Report election
- TFN, ABN or exemptions notification

All forms should be submitted directly to Computershare.

### SHAREHOLDER FEEDBACK
Feedback or comments with respect to shareholder communications are welcome.

Please direct any comments to the Communication Manager (see details below).

### COMMUNICATION MANAGER DETAILS
Write to:

Communication Manager
Macarthur Coal Ltd
GPO Box 1025
Brisbane QLD 4001
Email: info@macarthurcoal.com.au
Phone: 07 3221 7210
Fax: 07 3229 1776

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

## SUBSTANTIAL SHAREHOLDERS AS AT 19 AUGUST 2010

Substantial shareholders are set out below:

| Name | Percentage |
|---|---|
| CITIC Group | 22.7% |
| ArcelorMittal SA | 16.6% |
| POSCO | 8.3% |

## VOTING RIGHTS

Ordinary shares – Refer to Note 27 to the financial statements.

Employee shares – Refer to Note 24 of the financial statements.

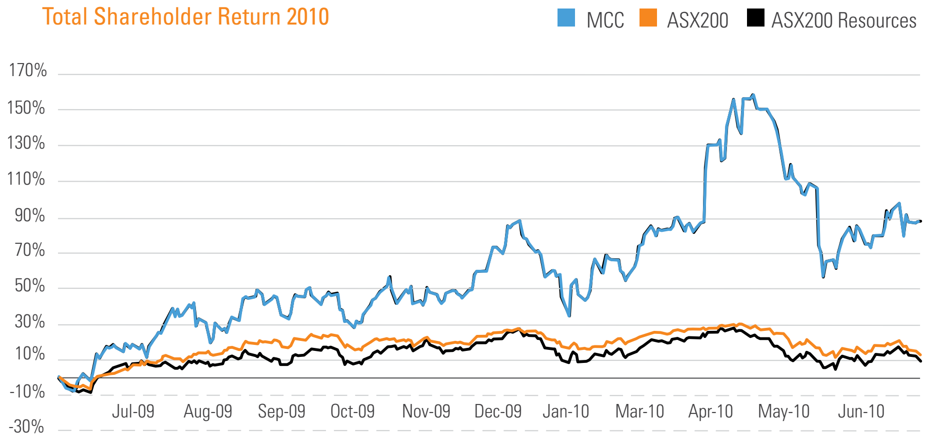
Options – Refer to Note 24 of the financial statements.

## DISTRIBUTION OF SHAREHOLDERS AND THEIR HOLDING AS AT 19 AUGUST 2010

| Shareholders | Number of shareholders | Number of shares |
|---|---|---|
| 1-1,000 | 6,476 | 3,247,612 |
| 1,001 – 5,000 | 5,035 | 12,529,663 |
| 5,001 – 10,000 | 819 | 6,065,804 |
| 10,001 – 100,000 | 439 | 9,747,995 |
| 100,001 and over | 52 | 222,742,035 |
| Total | 12,821 | 254,333,109 |

The number of shareholders holding less than a marketable parcel of ordinary shares is 450.

There is no current on-market buy-back.




*Source: Thomson Reuters*

## TOP 20 SHAREHOLDERS AS AT 19 AUGUST 2010

| # | Name | Percentage | # of Shares |
|---|---|---|---|
| 1 | CITIC GROUP | 22.75 | 57,870,430 |
| 2 | ARCELORMITTAL NETHERLANDS BV | 16.60 | 42,219,184 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 13.33 | 33,915,161 |
| 4 | POSCO | 8.34 | 21,215,700 |
| 5 | NATIONAL NOMINEES LIMITED | 7.76 | 19,747,554 |
| 6 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 7.14 | 18,149,081 |
| 7 | ANZ NOMINEES LIMITED – CASH INCOME A/C | 2.82 | 7,178,464 |
| 8 | CITCORP NOMINEES PTY LIMITED | 2.32 | 5,908,542 |
| 9 | UBS NOMINEES PTY LTD | 0.78 | 1,995,838 |
| 10 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2 | 0.56 | 1,423,480 |
| 11 | COGENT NOMINEES PTY LIMITED | 0.50 | 1,259,162 |
| 12 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSCO ECA | 0.48 | 1,221,849 |
| 13 | AMP LIFE LIMITED | 0.39 | 993,659 |
| 14 | BRISPOT NOMINEES PTY LTD - HOUSE HEAD NOMINEE NO 1 A/C | 0.29 | 744,951 |
| 15 | RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED - PIPOOLED A/C | 0.27 | 690,408 |
| 16 | RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED - GSAM A/C | 0.25 | 646,118 |
| 17 | UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 0.19 | 480,631 |
| 18 | CS FOURTH NOMINEES PTY LTD – UNPAID A/C | 0.18 | 446,150 |
| 19 | BOND STREET CUSTODIANS LIMITED – MACQUARIE SMALLER CO'S A/C | 0.17 | 437,011 |
| 20 | UCA GROWTH FUND LIMITED | 0.16 | 400,000 |

**bcm**
A cubic metre of rock or material in situ before it is extracted

**$M**
Million dollars

**AICD**
Associate of the Australian Institute of Company Directors

**AGM**
Annual General Meeting

**ASIA**
Associate of the Securities Institute of Australia

**ASIC**
Australian Securities and Investments Commission

**ASX**
Australian Stock Exchange

**Bowen Basin**
The principal coal mining area in Queensland

**Cast blast**
A blast designed to throw a percentage of overburden material in to the final waste material

**CHPP**
Coal handling and preparation plant

**CO2-e**
Carbon dioxide equivalent

**Coking Coal**
Coal which is suitable for making coke

**Corporate governance**
The system by which companies are directed and managed

**CPRS**
Carbon pollution reduction scheme

**Crude steel**
Unrefined steel

**Cultural heritage**
The requirements set out in the *Aboriginal Cultural Heritage Act 2003* regarding significant Aboriginal areas or objects or evidence of archaeological or historical significance of Aboriginal occupation of an area of Queensland

**DERM**
Department of Environment and Resource Management

**Dividend**
Payment from the Company's profits to its shareholders

**Dragline**
A large earthmoving machine with a bucket suspended by cables from a crane-like boom

**EBIT**
Earnings before interest and tax

**EBITDA**
Earnings before interest, tax, depreciation and amortisation

**EIS**
Environmental Impact Study/Statement

**EPC**
Exploration permit for coal

**FOB**
Free on Board

**FOR**
Free on Rail

**Geological modeling**
The recording of physical characteristics of different rock types from boreholes

**Hedging**
A process to protect against or reduce a risk

**Indicated Resource**
That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a high level of confidence

**Inferred Resource**
That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a reasonable level of confidence

**JORC Code**
A code prepared by the Joint Ore Reserve Committee which defines criteria for publicly reporting resources and reserves

**KPIs**
Key performance indicators

**Low volatile coal**
Coal with less than 17% volatile matter

**LTIFR**
Lost time injury frequency rate

**Measured Resource**
That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence

**Metallurgical coal**
Coal used in the production of steel

**Mtpa**
Million tonnes per annum

**MLA**
Mining lease application

**NPAT**
Net profit after tax

**OCI**
Organisational Culture Inventory

**OEI**
Organisational Effectiveness Inventory

**Open-cut mine**
A mine worked at and from the surface

**Overburden**
Material which overlies a deposit of useful material

**PCI**
Pulverised coal injection

**Pig iron**
Raw iron produced from blast furnaces

**ROM**
Run of mine

**Reserves**
The economically mineable part of Measured or Indicated Coal Resource at the time of reporting as defined in the JORC Code

**Reserves**
The economically mineable part of Measured or Indicated Coal Resource at the time of reporting as defined in the JORC Code

**Resources**
The part of the coal deposit for which there is a reasonable prospect for eventual economic extraction as defined in the JORC Code

**Royalties**
State government charges for the mining of coal

**Slimcore**
A borecore less than 90 millimetres in diameter

**Strike length**
The length of a deposit able to be accessed for mining

**Strip ratio**
The proportion of overburden volume that is required to be removed to mine a certain tonnage of coal

**Tenement**
A mining lease, exploration permit, or mineral development licence

**Thermal coal**
Coal which is combusted to provide heat for steam generation and subsequent power generation

**TRIFR**
Total recordable injury frequency rate

**Unincorporated Joint Venture**
A business structure in which participants have several liability, fund operating and capital costs and receive the production in proportion to their level of ownership

# MACARTHUR COAL'S ASSETS

| Asset | Interest Held | Subsidiary Company Holding Asset | Joint Venture and Manager |
|---|---|---|---|
| Coppabella Mine | 73.3% | Coppabella Coal Pty Ltd | Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd (MCCM) |
| Moorvale Mine | 73.3% | Coppabella Coal Pty Ltd | Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd |
| Olive Downs North | 73.3% | Coppabella Coal Pty Ltd | Coppabella and Moorvale Joint Venture – managed by Macarthur Coal (C&M Management) Pty Ltd |
| Monto | 41% | Monto Coal 2 Pty Ltd | Monto Coal Joint Venture – managed by Monto Coal Pty Ltd |
| Amaroo | 85% | BB Interests Pty Ltd | Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd |
| Codrilla | 85% | BB Interests Pty Ltd | Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd |
| Vermont East | 85% | BB Interests Pty Ltd | Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd |
| Wilunga | 85% | BB Interests Pty Ltd | Bowen Basin Coal Joint Venture – managed by BB Interests Pty Ltd |
| Capricorn | 85% | Capricorn Coal Pty Ltd | Capricorn Joint Venture – managed by Capricorn Coal Pty Ltd |
| Middlemount | 72.48% | Middlemount Coal Pty Ltd (5%) and its subsidiary Ribfield Pty Ltd (95%) | Middlemount Coal Pty Ltd |
| Moorvale West | 90% | Moorvale West Coal Pty Ltd | Moorvale West Joint Venture – managed by Moorvale West Coal Pty Ltd |
| Olive Downs South | 90% | Olive Downs Coal Pty Ltd | Olive Downs South Joint Venture (formerly Olive Downs Joint Venture) – managed by Olive Downs Coal Pty Ltd |
| West/North Burton | 65% | West Burton Coal Pty Ltd | West/North Burton Joint Venture – managed by West Burton Coal Pty Ltd |
| West Walker | 85% | West Walker Coal Pty Ltd | West Walker Joint Venture – managed by West Walker Coal Pty Ltd |
| West Rolleston | 90% | West Rolleston Coal Pty Ltd | West Rolleston Joint Venture – managed by West Rolleston Coal Pty Ltd |

**ABN**
40 096 001 955

**OFFICER**
Company Secretary
Lisa Dalton

**REGISTERED OFFICE**
100 Melbourne Street
South Brisbane, Qld 4101

**POSTAL ADDRESS**
GPO Box 1025
Brisbane, Qld 4001
**Telephone:** 07 3221 7210
**Facsimile:** 07 3229 1776
**Email:** info@macarthurcoal.com.au
**Website:** www.macarthurcoal.com.au

**LOCATION OF SHARE REGISTRY**
Computershare Investor Services Pty Limited
Level 19, 307 Queen Street
Brisbane QLD 4000
**Phone:** 1300 552 270
**Website:** www-au.computershare.com

**STOCK EXCHANGE**
Macarthur Coal is listed on the
Australian Stock Exchange
The Home Exchange is Brisbane

**ASX CODE**
Ordinary shares: MCC

**OTHER INFORMATION**
Macarthur Coal Limited, incorporated and
domiciled in Australia, is a publicly listed
company limited by shares