Port Waratah Coal Services Limited

Attachment B - Background media articles supporting high demand for coal

See file: Attachment B.pdf.

The following documents are included in Attachment B:

1 Newcastle Coal Briefing Note, "Formation of Newcastle Coal Infrastructure Group";

2 "ABARE hps jump in coal export earnings", The Age, 20/09/04;

3 "BHP Billiton leads coal splinter group", Sydney Morning Herald, 07/09/04;

4 "Coal export expansion 'best way'", Newcastle Morning Herald, 07/09/04;

5 "China's energy needs fire coal boom", Australian Financial Review, 02/09/04;

6 "China's rising demand for coal, steel eases slowdown concerns", Bloomberg.com, 30/08/04;

7 "Macarthur Coal sees profit rise", The Australian, 26/08/04;

8 "Surging coal prices turn Macarthur loss into a strong profit", Sydney Morning Herald, 26/08/04;

9 "Miner emerges from flood, drought", Australian Financial Review, 26/08/04;

10 "Junior coal miners join the party", Sydney Morning Herald, 21/08/04;

11 "Macarthur digs in as prices rise", Australian Financial Review, 22/07/04;

12 "Punters pile in as good times roll for coal", Australian Financial Review, 16/07/04;

13 "Coking coal heading for $US80", Sydney Morning Herald, 14/07/04

14 "Record prices ahead", Mining News, 14/07/04.

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Newcastle Coal
INFRASTRUCTURE GROUP

Briefing Note

Formation of Newcastle Coal Infrastructure Group

The Newcastle Coal Infrastructure Group (NCIG) was formed by Memorandum of Understanding signed by foundation members BHP Billiton (through Hunter Valley Energy Coal), Centennial Coal, Donaldson Coal and Excel Coal on 30 August 2004. Mr Tony Haggarty, Managing Director of Excel Coal, has been appointed Chairman of the Group.

The aim of the group is to ensure adequate long-term capacity in the Hunter Valley coal export supply chain. The founding members of NCIG are significant coal producers who have sufficient coal reserves and projects to materially increase the coal they produce in response to this coal demand and anticipate increasing production by around 30 million tonnes during the next five to ten years. Like all Hunter coal producers, the group relies on shared rail and port facilities to export coal from Newcastle. These port facilities are managed by Port Waratah Coal Services Limited (PWCS).

In 2004 this coal supply chain has been unable to keep up with strong buyer demand. In response, a Capacity Distribution System was implemented by PWCS which allocates coal supply chain capacity between coal producers in a manner which caps the tonnage producers can export. This system has been authorised by the Australian Competition and Consumer Commission until 31 December 2004 as a short term solution only.

The members of NCIG have sufficient coal reserves to materially increase the amount of coal they produce, in response to strong market demand. The sole objective of NCIG is to ensure sufficient infrastructure capacity to significantly grow the volume of coal they export, through the development of additional coal terminal facilities at the Port, various rail investment proposals, and options to improve the efficient operation of the chain.

While recognising important common objectives, NCIG wishes to remain independent of PWCS and other potential infrastructure providers or operators. None of the NCIG founding members have a significant shareholding in PWCS.

In the months to come NCIG will:

- Identify and evaluate options to ensure adequate coal handling infrastructure
- Identify and evaluate rail investment and operating options
- Identify and evaluate alternatives for more efficient planning and usage of shared infrastructure
- Assess the competition and incentive effects of any proposed system of allocation of coal handling infrastructure
- Meet key participants and stakeholders in the Hunter coal supply chain to discuss current and future plans for expanding coal chain capacity

NCIG members will provide sufficient resources to undertake these activities. Other coal producers who do not have a conflict of interest in relation to the possible development of competing port infrastructure are not excluded from NCIG.

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ABARE tips jump in coal export earnings

September 20, 2004 - 12:59PM

Tight supply and surging demand for coal will push Australian thermal and metallurgical coal export earnings up 43 per cent in 2004/05, the nation's chief commodities forecaster said.

Australian Bureau of Agricultural and Resource Economics (ABARE) said on Monday that after falling in 2003/04, Australian thermal coal export earnings were set to increase by 43 per cent in 2004/05 to almost $6.3 billion.

"This forecast increase in export earnings reflects in large part the effect of higher negotiated prices for Japanese financial year 2004," ABARE said.

"With significant new capacity coming on line during 2004/05, Australian export volumes of metallurgical coal are forecast to rise by nine per cent to 122 million tonnes.

"Increased volumes and higher prices are forecast to result in Australian metallurgical coal export earnings rising by 43 per cent to over $9.2 billion 2004/05."

Strong global demand, particularly from Asia, and supply disruptions have boosted prices for both metallurgical and thermal coal.

Meanwhile, developments in resources hungry China will continue to have significant impact on global markets, with its exports expected to fall in 2004.

Thermal coal is used as a fuel to produce steam for generating electricity and in manufacturing processes requiring heating.

Metallurgical coal, otherwise known as coking coal, is heated to create coke - an essential ingredient in the steel making process.

ABARE said a decision by China, the world's largest producer of coal, to reduce coal exports to help satisfy domestic demand, has provided opportunities for other producers, particularly Australia and Indonesia.

China's thermal coal exports are forecast to fall by about eight per cent to 74 million tonnes in 2004 as world thermal coal consumption is tipped to rise, boosting global trade by three per cent to 487 million tonnes.

However easing of world economic growth is forecast to lead to a slowing in world thermal coal trade to 2.3 per cent in 2005, or about 498.5 million tonnes.

Infrastructure issues in South Africa and Australia mean that Indonesia is likely to get the biggest rise in thermal coal exports in 2004, jumping 14 per cent to more than 87 million tonnes, ABARE said.

Spot thermal prices were in the Asian market rose from $US35.69 a tonne in January to about $US56.95 a tonne in late August and tight supply and strong demand are expected to provide continued support for prices in the short term, the forecaster said.

Growth in steel production has driven metallurgical coal demand which is likely to jump six per cent in 2004 and two per cent in 2005.

Australian capacity expansions will see its exports of metallurgical coal rise seven per cent in 2004 to almost 120 million tonnes and another five per cent in 2005 to almost 126 million tonnes.

More breaking news

The Sydney Morning Herald Tuesday, September 7, 2004

BHP Billiton leads coal splinter group

James Chessell

BHP Billiton and three other Hunter Valley coal producers have fired a shot across the bows of rivals Rio Tinto and Xstrata by setting up a breakaway group to tackle the bottleneck at the port of Newcastle in a bid to grab a greater share of booming coal markets.

BHP, Centennial Coal, Donaldson Coal and Excel Coal, which have formed the Newcastle Coal Infrastructure Group, said yesterday they wanted to increase production by about 30 million tonnes over the next five to 10 years and would consider bidding for a third loader at the port.

The Hunter's port facilities are managed by the Rio and Xstrata-backed Port Waratah Coal Services (PWCS) – the NCIG members are not significant shareholders – which has also said it is considering expanding capacity at a time of record coal prices and continued congestion at the world's largest coal-loading port.

The port has been unable to keep up with booming demand for Hunter coal and has introduced a capacity distribution system, which caps the tonnage that producers can export.

The system was approved by the Australian Competition and Consumer Commission until the end of year but does not enjoy support of some players, such as BHP, which have described it as a short-term solution.

"Founding members of NCIG are significant coal producers who have sufficient coal reserves and projects to materially increase their coal production," Excel Coal chief and NCIG chairman Tony Haggarty said.

The group also hopes to gain greater representation for non-PWCS shareholders during any discussions with the State Government on rail and port planning matters.

While both sides were keen to point out they are on good terms and talking, it is believed the likes of BHP believe PWCS has a conflict of interest when it comes to expansion issues, including the long-mooted third coal loader.

PWCS operates two export terminals and assembles cargoes of coal at the port for exporters, mostly from the Hunter Valley, who are keen to make the most of strong demand for coking and thermal coal.

Slow boat ... the bottleneck at the Newcastle port is frustrating coal producers eager to cash in on high prices and rising demand. Photo: Brendan Esposito

NCIG will consider developing additional coal terminal facilities, various rail investment proposals and options to improve the efficient operations of the chain.

"While recognising important common objectives, NCIG wishes to remain independent of PWCS and other potential infrastructure providers or operators," Mr Haggarty said.

NCIG is expected to consider coal exporting issues only: its four members would continue to mine and market their coal separately.

PWCS chairman Eileen Doyle recently said the operator was considering "long-term" plans to increase annual ship-loading capacity to 120 million tonnes a year from the current 89 million tonnes, though nothing had been decided.

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NMH 7.9.04.

Coal export expansion 'best way'

By IAN KIRKWOOD

THE current system of planning for coal export expansion was the "best way" forward, coal-loader Port Waratah Coal Services said yesterday of a breakaway group of four coal companies.

The creation of the Newcastle Coal Infrastructure Group, with founder members BHP Billiton, Centennial Coal, Excel Coal and Donaldson Coal, was reported in yesterday's *Herald*.

Representatives of the group met PWCS executives including new general manager John Barbagallo on Friday.

Chairman Tony Haggarty of Excel Coal said the group wanted to see a broader debate about the development of new coal export infrastructure including rail improvements and a potential new coal terminal in the Port of Newcastle.

Mr Haggarty said PWCS had a conflict of interest in the debate, in that it operated the existing terminals, and had emerged in the past few years as the de facto voice of the Hunter coal industry.

Mr Barbagallo said yesterday that PWCS was working closely with the major companies involved in hauling coal by rail to ensure the system was improved.

The other companies were train companies Pacific National and Queensland Rail, the track operator Australian Rail Track Corporation and the NSW Government railway bodies.

Mr Barbagallo said the five issues affecting coal export performance were coal availability, train loading, track capacity, the number of trains and PWCS operations at the port.

"We have no control over coal availability but we are looking at the other four issues to see how best we can improve the system performance," he said.

He said the current quota system at the port had lifted probable tonnage from 80 million tonnes this year to 81 million, and PWCS believed the port could handle 89 million tonnes.

He said PWCS and the rail companies were working on longer term plans to improve the performance of the Hunter Valley coal chain, and had consulted widely with the various companies involved in coal exports.

The Australian Financial Review
Thursday 2 September 2004 • www.afr.com

China's energy needs fire coal boom

Commodities

Stephen Wyatt SHANGHAI

China's ballooning steel and energy sectors will be consuming mountains more coal. For Australia's coal exporters, such as BHP Billiton, Xstrata and Rio Tinto, China looks like it will go on underpinning the coal industry boom, though for the environment the news is not nearly so bright.

The China factor is the primary reason BHP Billiton yesterday announced plans to increase its coal production capacity to about 100 million tonnes a year by 2010. This is almost double current levels. Production at the metallurgical coal mines owned by BHP Billiton, BHP Billiton Mitsubishi Alliance and BHP Mitsui Coal in the 2004 financial year was 58 million tonnes.

Metallurgical or coking coal is a basic raw material used in producing crude steel. And China has been the driver of global steel output in the past three years.

China has also been the primary driver of the thermal coal market. It is set to increase its impact on this market as it aims to dramatically raise its electricity production.

Thermal or steam coal is used in the generation of electricity.

Coking and thermal coal together are Australia's largest commodity export.

China has been plagued by electricity shortages this northern summer. In Yiwu, a city in Zhejiang Province, 40,000 factories were starved of power for 20 consecutive days in August. Cooler weather over the past two weeks helped, but the country remains dangerously short of power.

And that is after it added new, mainly coal-fired, plants last year equivalent to half the total capacity of Britain, according to Xu Dingming, the director of the National Development and Reform Commission's energy bureau. Wang Yonggan, general secretary at China Electricity Council, a non-profit power industry lobby group, said recently China needed to invest 1 trillion yuan ($172 billion) over the next five years to raise its coal-fired electricity generation capacity to 500 million kilowatts. This would add about 240 million kilowatts. Three-quarters of the current electricity output of 400 million kilowatts is from coal-fired generators.

By 2010, China would be burning 1.35 billion tonnes of coal each year to generate electricity. To put this into perspective, Australia's thermal coal production in 2003 was 163 million tonnes and its total coal production was 270 million tonnes.

China produced 1.6 billion tonnes of coal in 2003. Unless it greatly increases its coal output, and there are forecasts it will rise to 2.4 billion tonnes by 2010, its exports of thermal coal will fall. If China's thermal coal output does not match its rising demand for electricity generation, then world thermal coal prices would be pushed even higher. They have tripled in the past year already, and while down to $US65 a tonne at port in Australia, they are down from their highest level ever.

On the steel and coking coal front, China's steel production this year will hit 260 million tonnes, according to Peter Marcus of World Steel Dynamics. This is 25 per cent of world output, up from 15 per cent in 2000 and the largest in the world.

China was the locomotive behind the growth in global steel production over the past five years with an annual growth rate of more than 20 per cent. This has led to a dramatic drop in China's exports of coke and coking coal. Its coking coal net imports are annualising at 1.3 million tonnes, a reversal from last year's net exports of 10.5 million tonnes.

BHP Billiton is betting that this trend will continue.

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Bloomberg.com

Print

China's Rising Demand for Coal, Steel Eases Slowdown Concerns

Aug. 30 (Bloomberg) -- Chinese demand for commodities, including coal and steel, pushed global shipping prices to a four- month high, signaling that government-imposed lending limits aren't abruptly slowing China's economy.

The Baltic Dry Index, which measures the cost of shipping coal, iron ore and other raw materials globally, has risen 61 percent since June 22. China will account for 36 percent of this year's worldwide demand for iron ore, the main raw ingredient in steel, according to Brazil's Cia. Vale do Rio Doce, the world's largest iron ore producer.

Rising demand allays concerns about a rapid decline in China's growth, which slowed in the April-to-June period for a second straight quarter following government curbs on lending to industries including steel and real estate. Economies from South Korea to the U.S. are counting on exports to China to sustain growth amid rising oil prices.

``The government measures have been effective in guiding the economy to a more moderate growth level,'' said Tai Hui, an economist at Standard Chartered Bank in Hong Kong. ``There's still a great demand for China to grow in terms of infrastructure and construction work, so it shouldn't surprise anyone that China is still sucking in huge amounts of commodities and energy.''

China's economy grew 9.6 percent in the second quarter from a year earlier, slowing from a gain of 9.8 percent in the first three months of the year. The economy has grown 7 percent or more each year since 1991.

Investment in fixed assets including factories and roads accelerated last month, and Asia's second-largest economy after Japan imported 34 percent more goods than a year earlier. In the first half of 2004, China's imports of iron ore climbed 35 percent, and imports of steel sheets and plates grew 64 percent.

`Sustainable Consumer'

``Growth in demand for commodities remains strong, and we certainly see China as being a sustainable consumer of raw materials in the medium to long term,'' Charles ``Chip'' Goodyear, chief executive of London-based BHP Billiton Plc, the world's largest mining company, told investors on Aug. 18. BHP Billiton said profit for January-June more than doubled as Chinese demand boosted commodity prices.

The Baltic Dry Index rose to 4224 on Aug. 25, its highest level since April 27, after dropping in April and May. The rebound has been stoked by Chinese demand for commodities such as steel, said Nicolai Hansteen, an analyst at Oslo-based shipbroker Lorentzen & Stemoco AS.

``The shipping market is driven by China's ferocious demand for steel,'' Hansteen said. ``China will have a huge demand not only for imports of steel products, but also for raw commodities used in the steel industry.''

Coal Demand

Demand for thermal coal used in power plants shows no signs of slowing, said Yang Hongming, vice president of Datang International Power Generation Co., the second-largest Chinese power producer with Hong Kong-traded shares.

Yang said in Hong Kong last week that Datang may buy 33 percent more coal next year as it increases generation to meet growing electricity demand. The company plans to expand capacity by a third to 10,410 megawatts by year-end, he said.

That's not to say the threat of a sharp slowdown in China has disappeared. Growth in Japan and elsewhere in Asia faces ``significant risks'' from ``the possibility of a hard landing in China,'' U.S. Federal Reserve Chairman Alan Greenspan said in a statement to the Senate Banking committee released by the committee on Aug. 24.

People's Bank of China Governor Zhou Xiaochuan said last week that banks need to keep checking ``excessive'' loan growth and preventing credit from flowing to industries that practice ``blind investment.''

Inflation

``The current economic expansion and inflationary pressure have not evidently eased,'' Zhou said in a speech to financial regulators in Beijing that was posted on the bank's Web site last week.

Consumer prices rose 5.3 percent in July from a year earlier, the biggest gain in seven years.

Rising profits at companies including Baoshan Iron & Steel Co. limit the government's ability to control the pace of growth, said Jim Walker, chief economist at CLSA Asia-Pacific Markets in Hong Kong. Baoshan, the publicly traded arm of China's biggest steelmaker, said first-half profit rose 26 percent as it raised prices on surging demand.

``When companies are making profits it's very difficult to get them to stop spending,'' said Walker, who forecasts that China's economy will grow between 9 percent and 11 percent this year. ``Imports of equipment and raw materials are continuing unabated.''

`Foot on the Brake'

Even so, some recent economic reports suggest growth is moderating. Industrial production growth slowed for a fifth month in July to 15.5 percent. Money supply in July grew at the slowest pace in two years, expanding 15.3 percent from a year earlier.

``There's been progress on the road to slowing the Chinese economy, but there's still work to do,'' Stephen S. Roach, chief global economist at Morgan Stanley in New York, said in an interview. ``Chinese officials should and will keep their foot on the brake'' for the next several months.

For economies worldwide that rely on Chinese demand for an increasing share of their growth, China's ability to avert a sharp slowdown is crucial.

China accounted for 21 percent of U.S. export growth last year and 28 percent of Germany's, according to a May report by Roach. China contributed 32 percent of Japan's export growth, 36 percent of South Korea's and 68 percent of Taiwan's, the report said.

``One of the lessons of the past several years is that China's strength has been good for her neighbors,'' said Donald H. Straszheim, president of Straszheim Global Advisers in Los Angeles. ``This continued growth in China is a good thing.''

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Print

Dialog

Macarthur Coal sees profit rise

The Australian 26 August, 2004

Macarthur Coal has reported a net profit of $11.7 million and sales of $222.3 million for the 2003-04 year. This is up on the previous year, when the company generated a net profit of $10.9 million and sales of $138.1 million. The company expects to record a net profit of $40 million to $45 million during this financial year, with the company's managing director Ken Talbot stating "We see continuing strong demand for our major product". In addition, the company has announced a final dividend of 3.78 cents a share.

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THOMSON DIALOG

The Sydney Morning Herald
Thursday, 26 August 2004

Surging coal prices turn Macarthur loss into a strong profit

James Chessell

The booming coal market has rescued Ken Talbot's Macarthur Coal, turning the Brisbane group's first-half loss into an annual profit and likely to underpin a fourfold rise in earnings during the coming year.

Enjoying soaring coal prices in recent months, Macarthur reported an $11.7 million net profit for the year to June 30, higher than last year's $10.9 million result and better than the $10 million to $11 million guidance given to the market in early July.

Macarthur will pay a final fully franked dividend of 3.78c a share on September 30.

The annual result included a $1.8 million tax benefit and would have been stronger but for a poor first half affected by a production shortfall at the group's Coppabella mine, the revenue-sapping effects of a strong Australian dollar and increased demurrage charges.

But Mr Talbot, chief executive and 43.6 per cent shareholder, is tipping a clean run for Coppabella and the group's recently expanded Moorvale project, with a total production capacity at 4.5 million tonnes.

The group achieved record coal sales of 3.8 million tonnes in 2004, 77 per cent higher than the previous financial year.

Mr Talbot said he was "comfortable" with 2005 consensus forecasts of a $45 million profit.

"Coal demand remains strong, with market analysts forecasting further coal price increases as a result of favourable market conditions leading into the forthcoming round of negotiations [with Japanese customers]."

Macarthur accounts for about 34 per cent of the world's seaborne pulverised coal, which has experienced strong Chinese demand for steel-making as well as growth in Asian coal-fired electricity generation to meet growing industrial output.

It joins a growing list of mid-tier producers such as Excel Coal, Centennial Coal and Gloucester Coal tipping strong profits in 2005.

In recent weeks brokers such as UBS and Goldman Sachs have predicted that hard coking coal prices may hit $US80 a tonne – compared to present contract prices around the $US57.50 mark – in the Japanese fiscal year starting in April next year.

Goldman Sachs JBWere's Neil Goodwill said 2005 earnings "should benefit from an exceptionally tight coking coal market", with negotiations with Japanese customers expected to begin shortly.

Mr Talbot also used the result to talk up Macarthur's $12 million exploration program in Queensland's Bowen Basin.

The company is evaluating eight projects and has lodged lease application for the initial 1 million tonne a year open cut operation at Olive Downs, which is planned as a satellite operation to Moorvale.

Macarthur shares, which reached $2.49 earlier this month, closed down 4c at $2.31.

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The Australian Financial Review
Thursday 26 August 2004 • www.afr.com

Miner emerges from flood, drought

Stephen Wisenthal

Macarthur Coal said it planned to develop new mines to exploit surging coal prices, which are set to drive a fourfold profit increase this year.

The miner reported an 8 per cent rise in full-year profit to $11.7 million, with earnings confined to the second half after difficulties including drought and flood held the company to a small loss in the first half.

Managing director and major shareholder Ken Talbot said the company had a portfolio of eight coal deposits it was studying as potential mines.

"Macarthur Coal has a very strong opportunity for future growth," he said. "In a period of strong markets, we don't have to pay a high price for coal assets."

It aimed to more than double annual production to at least 10 million tonnes from 4.5 million tonnes within the next few years.

Macarthur expected its profit to rise to between $40 million and $45 million in 2004-05 due to booming demand for its specialised coal, which steel producers use as a replacement for higher-cost coking coal.

"We see continuing strong demand for our major product," Mr Talbot said.

Macarthur will pay a final dividend of 3.78¢, after omitting its interim payout.

The company was right in the current market to assess opportunities for new mines, ABN Amro Morgans analyst Roger Leaning said. "It's where the most immediate growth opportunities are for them."

He expected the first new project to be Olive Downs, near Macarthur's new Moorvale mine. That might prompt a small increase in his $2.23 valuation on the shares, but not enough to change his "hold" recommendation. And it was unlikely that any new mine would begin production before mid-2006.

The company's profit guidance had to contain an element of guesswork because of the uncertainty about coal prices.

"I would have thought they were a bit conservative," Mr Leaning said.

MACARTHUR COAL

Full year	2004 ($m)	2003 ($m)
Sales	222.3	138.1
Pretax	15.9	17.6
Net	11.7	10.9
EPS	8.6¢	8.3¢
Interim div	0.0¢	3.2¢ f
Final div*	3.78¢ f	1.0¢ f
Shares (yest)	$2.31	-4¢

*Payable September 30

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Dialog

Junior coal miners join the party
Sydney Morning Herald, First, p 72 21 August, 2004
By JAMES CHESSELL

While Chinese demand for coal has made the sector an excellent place to be, the market is starting to catch up, with bumper results from the likes of Centennial Coal and Excel Coal this week largely anticipated by investors.

However, there are still few opportunities at the smaller end of the sector, according to some analysts.

While Chinese demand for coal has made the sector an excellent place to be, the market is starting to catch up, with bumper results from the likes of Centennial Coal and Excel Coal this week largely anticipated by investors.

One of these is Felix Resources - the company formerly known as Auiron Energy which tried and failed to develop a steel mill in South Australia.

The stock has more than doubled since June as Felix expanded its coal interests, so it's hardly an unknown quantity, but the strength of coal prices and increased production at its Yarrabee mine in the Bowen Basin have impressed Paul Barkl of Equity Capital Markets.

Felix's 2004 earnings have been hurt by high demurrage charges but Barkl says the "company is actively looking at ways to reduce" this.

"Earnings momentum into 2005 should be maintained as the Yarrabee mine is expanded from current production levels of 1.4 million tonnes to 1.7 million tonnes per annum," he writes.

At this production rate, the mine's life is 10 years although there is significant exploration potential to extend reserves.

Like Macarthur Coal, Yarrabee produces the pulverised coal injection version used as a substitute for coke in blast furnaces.

More interestingly, as far as the future is concerned, Felix has exercised an option over the Minerva greenfields coal deposit, 40 kilometres south of Emerald in Queensland's Bowen Basin near the Yarrabee Mine. Felix will pay $3.5 million for a 70 per cent interest.

A proposed 2.5 million tonne year open-cut operation is the goal, with a feasibility study due to be completed at the end of the month.

Barkl reckons the mine should be in full production by 2006, with a forecast open-cut mine life of 13 years.

Discovery into Africa

Discovery Nickel, the recently floated exploration assets of Canadian producer Falconbridge and AIM Resources, has extended its activities to north-east Botswana.

Unlike Discovery's more grassroots nickel interests in Western Australia and the Northern Territory, the African ground has quicker development potential.

Discovery got the African ground through a farm-in deal with Falconbridge, allowing it to earn up to 80 per cent of the project which surrounds BCL's three nickel mines in the Selebi-Phikwe region.

A JORC-compatible resource estimate for the Dikoloti deposit is planned in the next month or so.

In addition, Discovery is pushing ahead with various exploration programs, including ground in western Tasmania, prospects which were acquired in March.

Merlin's magic double act

Merlin Petroleum's unusual plans to list simultaneously on bourses in Australia and the UK are said to be moving along nicely, with the offer expected to close fully subscribed.

Merlin chairman Jock McGregor, a former BHP Billiton executive, hopes to raise $15 million - more than the usual amount sought by junior explorers - to fund a six-well program over the next year in a bid to generate early cash flow.

The group also wants to join a growing list of junior resources listing on London's Alternative Investment Market.

The Poms are often more enthusiastic about the smaller end of market, hence Merlin's plans to raise about $10 million there and $5 million from the ASX.

Merlin plans to issue 75 million shares to the ASX and AIM at 20c a share, giving the public 75 per cent of the company.

Most of the funds raised will be used in an aggressive drilling program in the Cooper Basin area, with plans to drill six wells in the next 12 months, three of them before Christmas.

The company will be following in the footsteps of other Cooper floats - Great Artesian oil and gas, Cooper Energy and Stuart Petroleum.

Merlin plans to begin life as a public company drilling its lower-risk Cooper prospects - established from farm-in deals with Victoria Petroleum.

The other joint venture partners are Springfield Oil & Gas (a subsidiary of Impress Ventures), Permian Oil (a subsidiary of Roma Petroleum) and Lion Energy.

Merlin's prospects are near existing infrastructure with pipelines in place from the existing and past leaseholders (Santos) meaning that any success could be developed quickly with the potential for early cash flows.

If all goes to plan, Merlin plans to use the cash to support its longer-term drilling program for very large (100 million barrels plus) onshore oil targets in the Northern Territory.

Merlin has 32,000 square kilometres of ground in the top end, covering some of the last undeveloped petroleum troughs in Australia - the Pedirka and Wiso Basins.

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THOMSON
DIALOG

11

The Australian Financial Review
Thursday, 22 July 2004

Macarthur digs in as prices rise

Stephen Wisenthal

Macarthur Coal is focusing on exploration for new deposits as strong demand continues to bolster coal prices.

The miner, the biggest producer of low-volatile PCI, a specialist coal used in steel production, said it had confirmed a coal deposit near its new Moorvale mine in central Queensland.

It was also assessing options for going ahead with the Monto thermal coal project, which it put on hold more than a year ago.

"The sentiments for the coal business are very positive," Macarthur company secretary Bob Adams said. "We're continuing to examine areas that haven't been drilled."

Sales of coal almost doubled during the company's fourth quarter to 1.2 million tonnes, helped by production from Moorvale and better than expected shipments through the Dalrymple Bay Coal terminal after a coal-loading machine collapsed in February.

Macarthur's shares were unchanged yesterday at $2.24, up from a low of 96¢ in September.

"Like everybody else, they are getting people knocking on their door asking if they've got coal for sale," ABN Amro Morgans analyst Roger Leaning said.

He said it was important for Macarthur to perform well in the coming year, when profits were expected to increase four-fold to more than $40 million.

Sales and production in 2003-04 have been affected by both drought and flooding, as well as the Dalrymple shipping problems.

"The main advantage that Macarthur has is the fact that they did most of their expansion and capital expenditure before this boom occurred," Mr Leaning said.

NSW miner Centennial Coal also posted a strong quarter, with sales rising 13 per cent to 3.9 million tonnes in the three months to June 30.

Production fell 10 per cent, though, after the company sold an interest in a Queensland mine, stopped production at its century-old Ivanhoe pit, and suffered difficult rock conditions at two mines.

Overseas power utilities are interested in buying coal from the company's planned mine at Anvil Hill, one of the few large undeveloped coal deposits in the Hunter Valley.

Export stocks of thermal coal at Newcastle have fallen to 15 days' supply, just over half the average over the past few years.

Centennial shares rose 3¢ to $3.24 yesterday, compared with $2.26 last year.

Rio Tinto's listed NSW coalmining subsidiary, Coal & Allied Industries, said production improved at all its mines in the three months to the end of June, compared with the first quarter of 2004.

Efficiency was being improved and costs reduced by combined management of the Mount Thorley and Warkworth mines, and a transfer of management to Rio Tinto Coal Australia in Brisbane.

The Australian Financial Review
www.afr.com • Friday 16 July 2004

Punters pile in as good times roll for coal

Stephen Wisenthal

High oil prices have been hogging the headlines, but a flock of Australian companies are expecting a bonanza from a less glamorous type of black gold – coal.

And the market is taking notice, with producers including Centennial Coal, Macarthur Coal and New Hope Corp posting record-high share prices.

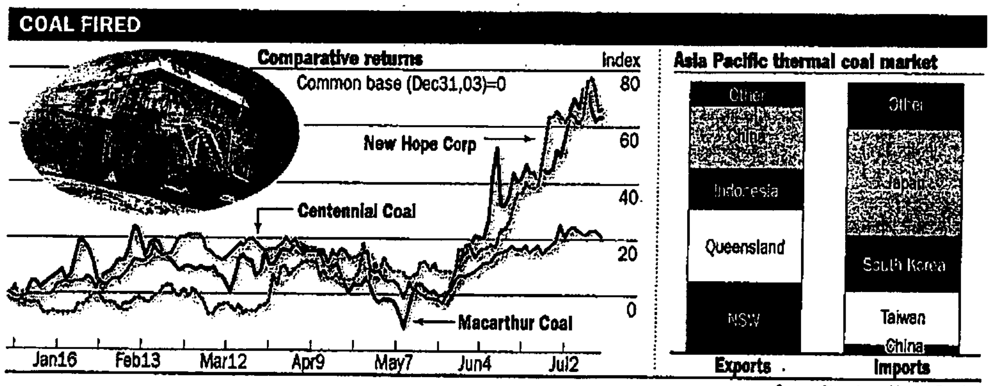
But while all three mine and export coal, their products and markets are very different.

Centennial has the least leverage to international prices, with a large proportion of its sales priced in Australian dollars for supply of steaming coal to power generators in NSW. Macarthur, in contrast, sells almost all its output of PCI coal to international steel companies, which use it to replace high-priced coking coal in blast furnaces.

And New Hope, spun off in September from diversified group Washington H Soul Pattinson, has as its main asset the Adaro mine, the largest coal operation in Indonesia.

But all three are benefiting from years of slow investment in coal production around the world, which has created a shortage of the commodity as demand ramps up.

"There's no excuse for not getting a reasonably high price increase this year given that all the consumers are crying out for material," BT Financial Group portfolio manager Tim Barker said.



Source: Bloomberg, Morgan Stanley

The most extreme example of improved prospects is Macarthur Coal, on track for a surge in profits in the financial year just begun.

The company upgraded its profit forecast for 2003-04 earlier this month to between $10 million and $11 million, more than double previous predictions.

But analysts' forecasts for 2004-05 range from $41 million to $53 million, with Macarthur's output expected to recover from a year of mishaps, just in time to enjoy the high prices.

Citigroup Smith Barney recently upgraded its valuation on the shares to $2.70 from $1.80, as it boosted its coal price forecasts.

And the stock, which traded as

"Consumers are crying out for material."

low as 86.5¢ a year ago, yesterday rose 2¢ to $2.18. Not bad for investors who supported a 1-for-5 rights issue in April at $1.20 a share.

The price is now about 30 times the company's guidance for 2003-04, but just seven times analysts' expectations for the current financial year.

Centennial's price increase is less extreme. Its shares fell 3¢ yesterday to $3.27, compared with $2.21 a year ago. And its expected profit of $65 million this year is up a mere 38 per cent from analysts' predictions of $47 million for 2003-04.

Citigroup Smith Barney said the company, which sells more than 80 per cent of its output to NSW power generators, had the potential to increase exports as it ramped up production from its Mandalong mine.

There is potential for further growth if it develops Anvil Hill, one of the few large undeveloped coal deposits in the Hunter Valley.

New Hope had a quiet debut last September, raising just $10 million from new shares issued at the time it was listed.

But the stock has surged to almost three times the 40¢ valuation Soul Patts set at the time of the spin-off.

The shares rose 3¢ yesterday to $1.14, valuing the company at more than $800 million.

That is 17 times the $47 million profit forecast by ABN Amro Morgans for the financial year ending July 31. But the multiple falls to six times the broker's - $137 million prediction for 2004-05.

BT Financial's Mr Barker said anyone buying the stocks was betting that the good times in the coal industry would last for a while.

"Structurally you would think the coking coal market is a better market to be in," he said. "There is less of it [coking coal] and it is produced by fewer people."

The danger is that the high prices, particularly for steaming coal, which has tripled over the past year, will cause a surge in production.

That could prompt a repeat of the years of oversupply that caused the Australian coal industry so much grief in the mid- to late-1990s.

The Sydney Morning Herald
Wednesday, 14 July 2004

Coking coal heading for $US80

Barry Fitzgerald

Australia's coking coal exporters are set to build on this year's big price increase for the steel-making raw material, with analysts tipping a further rise of up to 40 per cent for prices to apply in 2005-06.

The predicted price rise to about $US80 a tonne would follow the 22 per cent price increase to $US57 a tonne secured in the benchmark Japanese market for supplies in its 2004-05 fiscal year.

The price surge reflects runaway growth in steel production in China and India at a time when already short supplies from Australia, Canada and the US have been restricted by issues ranging from bad weather to underground fires.

Should the coal exporters secure the forecast 40 per cent increase for 2005-06, it would boost annual industry revenue by close to $4 billion at current exchange rates, lifting the total value to more than $13.5 billion, more than double all other commodity exports except for iron ore.

Price negotiations for 2004-05 would normally be expected to start in October/November but there is a chance they will kick off earlier this year, such is the alarm of Asian steel makers over the tight supply situation.

'The sellers' market for coal is expected to persist.'

That alarm was reflected yesterday in the Japanese trade magazine and industry mouthpiece, the *Tex Report*. It said there was strong "apprehension" among the steel makers over the long-running "tightness" of supply.

So much so that steel makers in the Asian region were facing an "urgent need for a fundamental transformation" in the way they went about securing their coking coal supplies. Whereas the strategy used to be about getting coking coal as cheaply as possible, now it was all about securing supplies, *Tex* said.

The biggest locally-listed coking coal producers are BHP Billiton and Rio Tinto. Companies with more leverage to the coking coal price boom, because of their much smaller size and single commodity exposures, include Macarthur Coal and Excel Coal.

Goldman Sachs JBWere is one of many brokers that has recently upgraded its coking coal price expectations, telling clients that its 2005-06 expectation had been increased from $US67.50 a tonne to $US80 a tonne. "The sellers' market for hard coking coal is expected to persist," it said.

Record prices ahead

Marian Hookham

Wednesday, July 14, 2004

CONTRACT prices of both coking and thermal coal are expected to increase by US$10 per tonne in the next round of annual price negotiations, lifting prices to the highest level in at least 20 years, according to Citigroup Smith Barney.

Smith Barney analyst Alan Heap said strong demand and supply constraints were the main drivers of the rocketing prices.

Metallurgical coal:

China is expected to become a net importer of metallurgical coals from 2004. Net exports of 11 million tonnes in 2003 are expected to become net imports of 5Mt in 2004 and 10Mt in 2006.

While in previous cycles tightness in hard coking coal prices has been eased through increased semi-soft and PCI consumption, this will not be the case this time.

In China, a high proportion of consumption of local metallurgical coal is semi-soft. Technical constraints and demand for higher quality coal for use in modern blast furnaces necessitate increases in hard coking coal imports.

In Japan further semi-soft and PCI consumption growth will also be limited by PCI technology and because coking oven capacity is fully utilised. Also the narrow differential between hard coking coal prices and semi-soft prices (at least in 2005) will reduce the economic incentive to switch.

Coking coal supply from the major producers is extremely constrained. Australian production is expected to increase 15Mt by 2006, and Canadian production by 5Mt by 2005. Only the USA has the potential to markedly increase supplies, but even in Australia an increase of more than 10mt will take some years.

Thermal Coal:

Smith Barney predicts that in China strong internal demand is expected to reduce exports by around 15Mt in 2004 as the Chinese government tries to address the domestic shortage by restricting exports. Although exports are up 5% ytd, the government has reduced the export rebate and increased other tariffs. Only 58Mt of export quotas have been issued so far in 2004.

"There is an acute and chronic power shortage in China. Brown-outs are a regular occurrence in three quarters of the provinces. Electricity generating capacity is planned to increase by 19% by 2005, most of which will be coal fired. Industrial consumption is also an important source of demand. We project thermal coal demand to grow at around 15%/yr," the broker said.

In Europe escalating gas prices have allowed coal prices to increase without seriously eroding the competitive position of coal. Even at current spot coal prices of US$70/t, the spread in relative energy values is wider than at other time in the past, favouring coal. European imports surged 9% in 2003, and 7% growth is forecast over the next 2 years.

Thermal coal supply is typically highly price elastic. But rail and port bottlenecks in Australia and South Africa are now expected to persist for longer than previously expected, preventing producers from increasing shipments. These constraints are expected to persist until 2006. Only Indonesia has the ability to significantly increase output.

"We now expect a US$10/t (24%) increase in contract prices for JFY05/06, and for spot prices to stabilize at around US$55/t. Previously we expected supply increases to offset demand growth and for prices to decline," Smith Barney said.